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ECONOMIC INDICATORS

Research Department

First Hawaiian Bank

November/December 1991

Outlook for the Hawaiian Economy in 1992

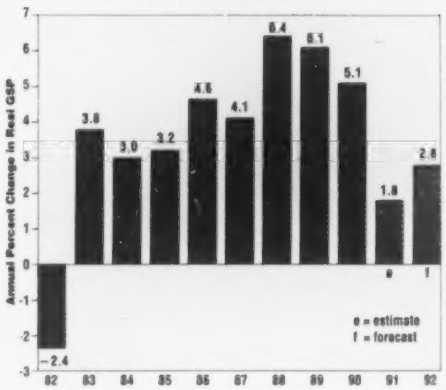
The year 1991 has tested Hawaii's economy more than most forecasters thought possible this time last year. We foresaw a Gulf War and a continuing U.S. recession. Yet no one predicted the psychological and political ramifications of the war on worldwide tourism. Projections that the mainland's recovery from recession would be slow have been borne out, but it was generally believed then that the national economy would be growing more strongly as 1991 drew to a close than is actually the case now.

When all is said and done, however, we have reduced our last year's estimate for real gross state product growth in 1991 only about half a percentage point—from 2.5% to just under 2.0%. Tourism has come back much quicker than most people projected last winter.

Next year, some snap-back in visitor numbers will occur even with only an ordinary 1992, just because of the big slump early this year. But lower hotel occupancies, reduced expenditures, and shorter stays could all make this result especially deceiving.

A bigger drag on growth as this year comes to a close, and one that will be felt throughout the next several years, is a winding down in Hawaii's construction cycle. The hotel and resort construction that characterized the last upswing is ending. Future office construction will not sustain the boom for long either, nor should it if we wish to avoid the commercial overbuilding that has plagued mainland cities. Residential construction here, on the other hand, should be a greater source of strength than on the mainland, given the state's still acute housing needs and

Actual and Forecasted State Growth



inflated prices.

The greatest stabilizing force in construction may come from the public sector. Private growth has been slowed by the inability of infrastructure to keep pace. Augmenting infrastructure can be used quite consciously as a countercyclical device at the state level in times of lower economic activity, and Hawaii's fiscal position enables this offsetting mechanism to a greater extent than for many states.

So overall, our projection for 1992 real gross state product growth is 2.8%, better than 1991 but largely because of the tourism springback over this year's lower base. Any forecast entails specific assumptions, which here include: (1) about flat westbound visitor growth, partly due to ongoing mainland economic weakness, but at least high single-digit eastbound growth; (2) unchanged defense spending in the state, in nominal terms, except for cost-of-living increases to the payroll; (3) state inflation-adjusted personal income growth of around one percent; (4) no major adverse economic shocks coming from Japan's economy; and, (5) a U.S. national economy that recovers slowly from recession.

We should get some relief on the inflation front next year. Hawaii's cost-of-living will remain far above the mainland average, and it may continue to increase at above the national rate, but our inflation should at least grow more moderately. Lower mainland inflation will help, and softer housing prices here should make our CPI's shelter component—the biggest source of our inflation in recent years—grow less rapidly.

The labor market will stay fairly tight, but it should ease some. The state's job growth now is still positive, but it has slowed markedly in the last two years after overheating in the 1980s. Slack has been taken up by

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reduced multiple jobholding and fewer hours worked, factors that help insulate our low unemployment rate.

Thus far, despite much consternation this year, Hawaii's economy has escaped the national recession that began in July 1990. We do not predict that recession will arrive here late. If it does, the lag will be much greater than it has ever been historically. This issue's inside article addresses Hawaii's relation to the national business cycle in more detail.

First Hawaiian Bank

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Hawaii's Economy and the Nation: A Perspective on Lagged Influences

The recent mainland recession has revived an issue of perennial interest to those who have analyzed Hawaii's economy over the years. The topic periodically has been debated here among bank economists and others, whose purposes were to verify or refute at least a semi-fixed lag running from the national to the state business cycle.[1] The existence of such a lag would obviously be quite handy in forecasting the isle economy.

Just what is the relation of the national business cycle to this geographically isolated and less diversified island state? How stable has it been over the years? As 1991 passes and dangers of recession here this year recede, it may be appropriate now to reflect on these questions.

Answers are more complex when mainland economic conditions get so much attention in the national media. People's business and consumer confidence levels here can be affected by analyses at the national level just because they read what everyone else does, and expectations can be self-fulfilling. Interestingly, in February 1991 a local TV/newspaper poll recorded 63% of those surveyed as believing a recession was then underway in Hawaii. Most respondents to such a survey, of course, do not use any single consistent definition of recession in formulating their answer.

At the national level, we often use the rule of thumb that two consecutive quarters of decline in inflation-adjusted GNP growth defines a recession. Then, usually well after the fact, the National Bureau of Economic Research (NBER) tells us the month of entry into and exit from recession, but that dating committee uses no simple formula. At the state level, the analogous number on real gross state product is compiled only annually, so shorter periods of state recession may escape formal definition—if not the notice of those observing the economy.

Chart 1: Job Growth

Certain rules of thumb at the local level can be applied also. In an article earlier this year introducing revisions to our state leading index (see *Economic Indicators*, January/February 1991), we suggested the monthly job count as a coincident indicator to watch here. Were it used to actually define a state recession, our last one began in October 1981 and ended in December 1982. The corresponding national recession, according to the NBER's dating, started two months earlier and ended one month earlier, so any lag involved would be very short indeed. As Chart 1 shows, however, intimations of recession here this year were not without some basis; job count growth slowed markedly. Yet regarding any lag between national and state growth, it is notable that the series has continued to show positive growth for sixteen months after the nation entered recession in July 1990.

Previous views on the existence of a lag seem to have ranged between embracing a fixed one to claiming that no linkage exists at all. One does not have to go far back into Hawaii's economic history to appreciate how easy it was to conclude that there was little or no correspondence whatever between national and state fluctuations. An earlier state economy, dominated by the plantation crops of sugar and pineapple and by defense spending, might have had its ups and downs, but they would bear little relation at all to the major forces of the national cycle.

With the rise of tourism as the state's major industry in the last 20 years, however, linkages have become more direct. Outlays for leisure travel can be highly discretionary, very dependent on the incomes and job prospects of those considering a vacation here. Yet the link still depends on the kinds of tourists attracted to Hawaii. Are they more or less influenced by national cycles than travelers that might gravitate toward other destinations?

With the rise of tourism as the state's major industry in the last 20 years, linkages have become more direct.

As 1991 has shown us, tourism to any overseas destination is at least as vulnerable to political occurrences that discourage long distance travel as it is

[1] For one opinion and a more extended analysis, see Dr. Thomas K. Hitch's posthumous book, *Islands in Transition; The Past, Present and Future of Hawaii's Economy*, to be published by First Hawaiian Bank in the coming year.

to swings in the business cycle alone. A problem is that the impact of these non-economic outside events, even if the events themselves could be more predictable, cannot be foreseen easily. It is hard even to make valid generalizations about the geographic proximity to Hawaii of such developments. Arguably the Korean War and the 1961 Cuban Bay of Pigs incident, and certainly the 1991 Persian Gulf War, discouraged tourism to Hawaii. Vietnam, on the other hand, had little such effect and is likely to have had a net positive influence. (See *Economic Indicators,* March/April 1991.)

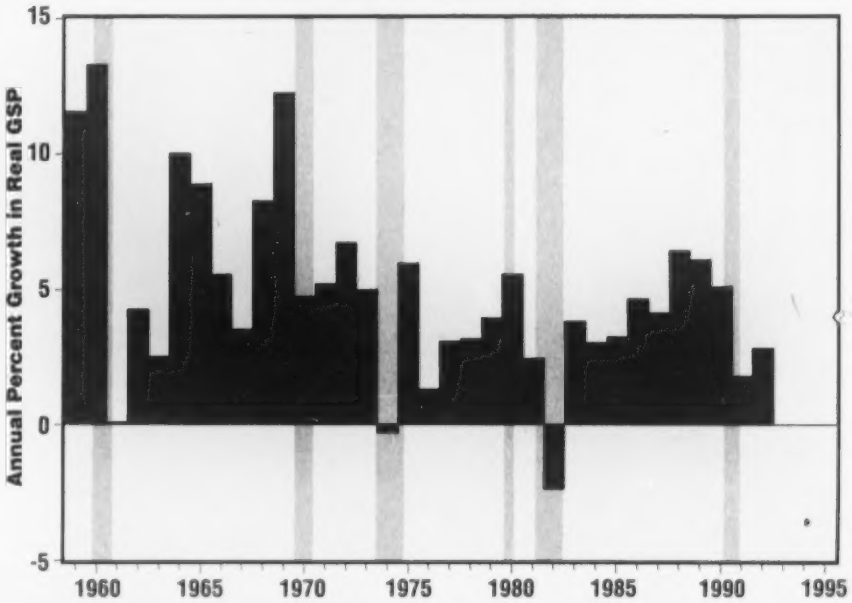
Overall comparison in Chart 2 of the national and Hawaii business cycles since statehood shows mixed results. Hawaii has experienced some, but certainly not all, national recessions. When it has followed the nation into recession, the lag has been variable but usually very short.

The 1960 national recession was followed by a year of flat state growth, but this was more related—in the view of some—to the Bay of Pigs than the previous year's economic weakness. In 1970, Vietnam spending and travel are likely to have helped prevent that year's national recession from reaching the state. The six-month national recession in 1980 corresponded to a year of quite robust state growth.

Only the two most serious national recessions of the past 30 years were clearly transmitted to the state. The first global oil shock of 1973-75 threw most of the world's major economies into recession, and Hawaii went with them in 1974. This state's economy runs on energy like other developed economies, so little lag might be expected. The sixteen-month 1981-82 national recession, like the preceding but briefer 1980 dip, was more related to high interest rates and tighter central bank policies to combat inflation. Capital market integration with the mainland means interest rates here follow the nation instantly, so the absence of a lag in that case should not be surprising either.

These two episodes taken together should be sufficient to lay to rest any

Chart 2: Hawaii's Business Cycle and National Recessions



fixed or extended lag hypothesis. The transmission in both cases was almost immediate because of the nature of the external shocks. A longer lag effect is still possible—for example, one that operates on tourism spending via a more prolonged multiplier process. Yet the present geographic diversification of Hawaii's tourism industry, across the U.S. but especially internationally, makes an actual downturn in economic activity here from such an origin much less likely.

Hawaii's economy is now more linked to the nation's than in the days of plantation agriculture and greater defense orientation, but even today we probably devote more attention to that linkage than is warranted. The assumption of any fixed lag running from the nation to the state is especially mistaken.

Hawaii is certainly not the only state or region whose business cycle can depart substantially from the national average. Size, commercial structure, export industries, income levels, diversification, and development trends in specific regions can cause great divergence in cycles within any national boundary. One recent study shows that 38 of the 50 states follow the national economy more closely than Hawaii does. (See **Current Business Trends,** this issue.)

One clear trend in the last half-decade makes Hawaii's economy less joined to the national economy than ever—the increased importance of Japanese economic influences. These are basically categorized under tourism and investment, and while the latter is slowing down from its frenzied pace the last several years, the former will likely continue to decouple Hawaii's economy from the U.S. mainland. (See *Economic Indicators,* July/August 1990.)

To conclude, Hawaii's economy is now more linked to the nation's than in the days of plantation agriculture and greater defense orientation, but even today we probably devote more attention to that linkage than is warranted. The assumption of any fixed lag running from the nation to the state is especially mistaken.

Hawaii Population & Income

Series/Unit/Period	Level	Percent Change: preceding period	Percent Change: year ago
Population			
State residents (thous., July 1, 1990) ..	1,111.8	.....	1.3
de facto	1,255.9	.....	0.6
Oahu residents (thous., July 1, 1990) ..	838.1	.....	0.4
de facto	911.9	.....	0.3
Maui residents (thous., July 1, 1990) ..	101.2	.....	4.8
de facto	139.1	.....	0.1
Hawaii residents (thous., July 1, 1990) ..	121.0	.....	3.8
de facto	136.0	.....	2.8
Kauai residents (thous., July 1, 1990) .	51.5	.....	3.6
de facto	63.8	.....	1.2
Military personnel (thous., July 1990) .	58.8	.....	−4.5
Civilian dependents	63.3	.....	5.1
Foreign Immigration (no., yr. to Oct.) ..	4,671	.....	−14.5
Total Personal Income ($ mil., 2nd Qtr. 1991)	24,026	4.8*	7.5
Employment Income	18,307	6.4*	7.7
Manufacturing	708	10.2*	4.6
Construction & Mining	1,690	5.6*	11.8
Wholesale	730	2.8*	5.6
Retail	2,048	4.8*	2.8
Finance, Ins., & Real Estate	1,422	19.2*	14.3
Trans., Comm., & Utilities	1,493	−0.8*	4.8
Services	5,249	11.8*	10.7
Farm & Other	382	13.6*	4.1
Federal Civilian	1,127	1.4*	0.8
Federal Military	1,472	−5.0*	4.4
State & Local	1,986	2.7*	9.2
Property Income	3,402	−5.2*	1.2
Transfer Payments: net of personal contributions for social insurance ...	2,317	7.8*	16.1
Per Capita Personal Income ($, 1990) .	20,356	.....	9.1

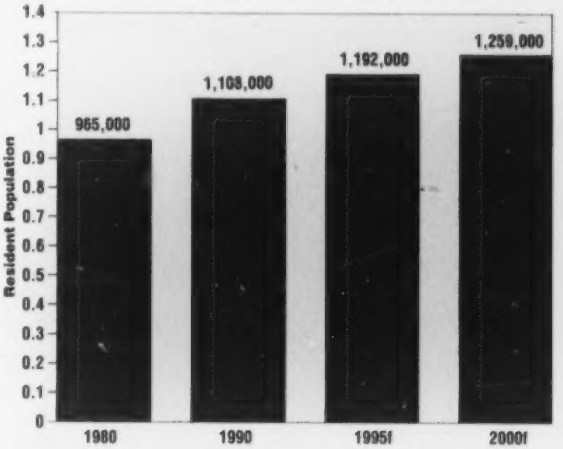
*Annual Rate

International Indicators

Series/Unit/Period	Level	Percent Change: preceding period	Percent Change: year ago
Hawaii Real Trade-Weighted Exchange Rate Index (1980 = 100, Oct.)	115.54	1.4	1.2
Japan			
Real GNP (yen bil., 2nd qtr.)	423,028	2.0*	5.0
Yen/$ exchange rate (Sept.)	134.58	−3.1	−3.2
Current Balance ($ bil., Aug.)	5.48	0.4**	0.9**
Discount rate (%, Nov.)	5.0	−0.5**	−1.0**
Long-term prime rate (%, Nov. 30, 1991)	6.6	−0.9**	−1.7**
Nikkei Stock Index (avg. Sept.)	24,632	6.9	3.4
Real GNP/GDP, Other Hawaii Trade Partners (1985 Prices)			
Canada (GDP, bil. C$, 2Q: 1991)	548.2	4.9*	−1.5
Australia (GDP, bil. A$, 1Q: 1991)	266.2	0.5*	−1.5
New Zealand (GDP, mil. NZ$, 1990)	45,374	.....	−1.3
Korea (GDP, bil. won, 1990)	121,734	.....	9.0
Taiwan (GNP, bil. NT$, 2Q: 1991)	952.8	6.7*	10.2
Singapore (GDP, mil. SGD, 1990)	57,076	.....	8.3
Philippines (GNP, bil. pesos, 2Q: 1991) .	181.3	29.4*	−0.2
United Kingdom (GDP, bil. £, 1Q: 1991)	407.54	−1.9*	−2.5
Germany (GNP, bil. DM, 2Q: 1991)	2,211.5	−2.2*	2.7

*Annual Rate **Incremental change

Hawaii Population Projection



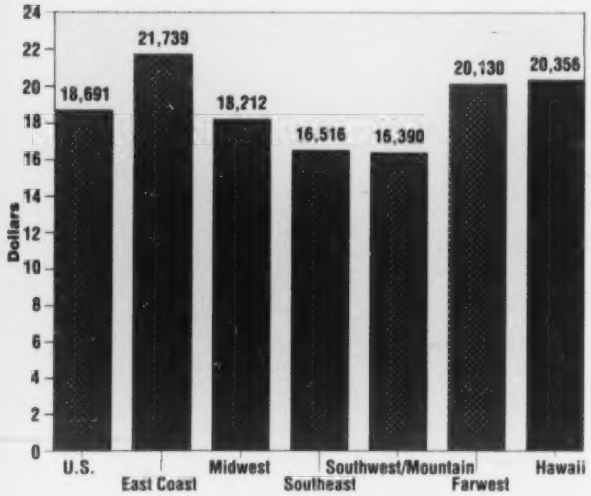
The U.S. Bureau of Economic Analysis recently published population growth forecasts for the states. While these may be crude extrapolations, they project that between 1990 and the year 2000 the Hawaii population will increase by 13.6 percent to 1,259,000 residents.

U.S. Economic Indicators

Series/Unit/Period	Level	Percent Change: preceding period	Percent Change: year ago
Gross Domestic Product ($ bil., 3rd Qtr.) In 1987 dollars	4,861.0r	1.7*	0.1
Personal Income (September)	4,846.7p	1.9*	3.2
Real Per Capita Disposable Income (1982 dollars, 2nd Qtr.)	11,323r	0.1	−2.1
Productivity Index Nonfarm business sector (1982 = 100, 2nd Qtr.)	111.4	0.2	0.1
Civilian Employment (mil., Oct.)	117.0	−0.2	−0.7
Unemployment rate (%, Oct.)	6.8	0.1**	1.1**
Capacity Utilization (%, Sept.)	79.7p	−0.1**	−3.9**
Consumer Confidence Index (1985 = 100, November)	50.6p	−16.2	−18.0
Price Indexes			
CPI-U (1982-84 = 100, October)	137.4	1.2*	2.9
PPI-Finished Goods (82 = 100, Oct.) ..	122.3	8.7*	0.0
Prime Interest Rate (%, October)	8.0	−0.2**	−2.0**
Federal funds rate (%, October)	5.2	−0.2**	−2.9**
3-Month Treasury bill (%, October) ..	5.0	−0.2**	−2.2**
30-Year Treasury bond (%, October) ..	7.9	0.0**	−1.1**
Money Supply (M2, $ bil., seas. adj., October)	3,400.3	1.0*	2.3
Domestic Nonfinancial Debt ($ bil., August)	10,743.5p	0.5	4.8
Corporate Profits—After Tax ($ bil., 2nd Qtr.)	160.6	−3.5	−3.3
Common Stock (DJIA, Oct.)	3,017.49p	0.2	22.6
Current Balance ($ bil., 2nd Qtr.)	3.0p	−7.5**	25.1**
Trade Balance ($ bil., 2nd Qtr.)	−15.6p	2.8**	8.5**

r = revised p = preliminary *Annual rate **Incremental change

1990 Per Capita Personal Income



For 1990, Hawaii ranked tenth in the nation in the level of state per capita personal income. Living costs are much higher in Hawaii than the national average too, but in nominal terms few states not on the East or West Coasts ranked as high as Hawaii.

Hawaii Banking & Finance

Series/Unit/Period	Level	Percent Change: preceding period	Percent Change: year ago
Commercial Bank Deposits ($ bil., 12-month ending October)			
State Total Deposits	156.7	.....	7.3
Debits to demand deposits	227.3	.....	7.6
Oahu Total Deposits	130.4	.....	7.9
Debits to demand deposits	208.8	.....	8.3
Maui Total Deposits	10.6	.....	2.1
Debits to demand deposits	7.8	.....	-3.1
Hawaii Total Deposits	10.7	.....	5.1
Debits to demand deposits	7.2	.....	2.2
Kauai Total Deposits	5.1	.....	6.1
Debits to demand deposits	3.4	.....	4.8
Bank Loans Outstanding ($ mil., 2nd Qtr.)			
State	9,659.6	2.9	12.1
Real Estate	4,897.0	4.0	18.2
Consumer	1,210.1	-3.6	-7.8
Commercial & Industrial	2,905.0	3.9	14.6
Other	544.6	1.4	8.3
Conventional Home Mortgage Rate			
Honolulu (%, 3rd Qtr.: 1991)	8.67	-0.51**	-1.06**
State Tax Collections ($ mil., Oct.)	2,342.2	.....	8.1

***Incremental change*

Hawaii Employment & Jobs

Series/Unit/Period	Level	Percent Change: preceding period	Percent Change: year ago
Civilian Employment (thous., October)			
State Labor Force	560.1p	0.7	3.4
Employment	544.0p	0.6	3.3
Unemployment rate (%)	2.9p	0.1**	0.1**
Oahu Labor Force	401.9p	1.1	2.4
Employment	391.9p	1.0	2.5
Unemployment rate (%)	2.5p	0.1**	-0.1**
Maui Labor Force	61.5p	-0.2	5.7
Employment	59.4p	-0.2	5.0
Unemployment rate (%)	3.5p	0.0**	0.6**
Hawaii Labor Force	66.2p	-0.4	5.8
Employment	63.5p	-0.3	5.0
Unemployment rate (%)	4.2p	0.0**	0.7**
Kauai Labor Force	30.4p	-0.3	6.9
Employment	29.3p	-0.3	6.5
Unemployment rate (%)	3.7p	0.2**	0.3**
Job Count by Industry (thous., October)			
Total Jobs—State	591.5p	1.9	1.3
Oahu	444.0p	2.2	0.6
Maui County	57.4p	1.1	3.1
Hawaii	60.6p	0.8	3.2
Kauai	29.6p	0.7	4.6
Sugar (mill & field)	5.4p	-0.9	-4.5
Pineapple (cannery & field)	3.3p	-3.0	-5.8
Diversified Agriculture	10.3p	3.0	13.8
Diversified Manufacturing	16.2p	0.0	-3.9
Durable goods	4.0p	-1.2	-7.0
Non-durable goods	12.2p	0.0	-2.4
Apparel & textiles	1.9p	0.0	-9.5
Contract Construction	32.7p	-1.1	0.5
Transportation	31.8p	-0.2	-1.6
Communication	7.3p	0.0	-0.7
Utilities	3.2p	0.0	3.3
Retail Trade	112.9p	0.3	-1.0
Wholesale Trade	22.6p	0.2	-0.4
Finance, Insurance, & Real Estate	38.1p	0.5	1.9
Hotel Services—State	40.9p	0.1	5.1
Oahu	19.3p	0.0	-1.3
Maui County	10.5p	2.0	13.0
Hawaii	6.5p	-2.3	4.0
Kauai	4.6p	-1.1	17.9
Other Services	119.5p	0.0	2.4
Federal Government	32.9p	0.0	-0.3
Civilian Agencies	14.2p	0.0	2.9
Defense Department	18.7p	0.0	-2.6
State Government	60.1p	16.5	5.2
County Government	14.7p	0.7	2.8
Non-Agriculture Self-Employed	40.0p	5.5	0.1

***Incremental change*

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Hawaii Business Activity

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
State Gross Business Receipts			
($ mil., year to September)	32,387.5	.....	3.6
Diversified Manufacturing	534.5	.....	–6.5
Diversified Agriculture	232.9	.....	–5.4
Retailing	10,458.1	.....	1.0
Wholesaling	8,228.5	.....	0.8
Services	7,871.3	.....	8.6
Construction	3,299.3	.....	9.3
Other	1,771.9	.....	7.3
Retail Car Sales—State			
(Number, year to October)	34,865	.....	–3.7
Oahu	26,833	.....	–1.2
Maui	3,181	.....	–7.2
Hawaii	3,550	.....	–5.2
Kauai	1,301	.....	–30.9
Honolulu CPI (1982-84 = 100, 1st half 1991)			
Urban Wage Earners &			
Clerical Workers	147.7	8.6*	8.4
All Urban Consumers	146.8	8.5*	8.3
Tourism (Number, October)			
Overnight or Longer Visitors	527,760p	–6.0	–1.4
year to date	5,677,020p	.....	–3.0
Westbound Visitor Count	349,250p	–2.1	–5.7
year to date	3,161,930p	.....	–20.6
Oahu	216,190p	–3.9	–14.7
year to date	2,425,340p	.....	–9.8
Maui County	155,650p	5.4	–1.0
year to date	1,607,240p	.....	–4.8
Hawaii	73,120p	19.4	–14.0
year to date	819,440p	.....	–1.6
Kauai	91,040p	2.7	–3.7
year to date	916,280p	.....	–4.3
Average Daily Census	100,940p	–4.2	–8.7
Average Length of Stay (days)	9.0p	0.7	–3.2
Eastbound Visitor Count	178,510p	–13.0	8.3
year to date	1,859,720p	.....	–0.5
Oahu	172,950p	–13.8	8.9
year to date	1,788,070p	.....	–1.1
Maui County	34,870p	18.0	10.1
year to date	336,900p	.....	1.4
Hawaii	15,410p	42.3	–0.9
year to date	160,240p	.....	3.5
Kauai	13,260p	17.0	–0.1
year to date	139,720p	.....	0.0
Average Daily Census	32,420p	–13.2	–0.1
Average Length of Stay (days)	5.6p	2.4	–7.7
Hotel Occupancy Rate—State			
(%, October)	71.7	–3.8**	–5.5**
year to date	72.6	.....	–7.7**
Oahu	80.4	–6.2**	–2.7**
year to date	79.8	.....	–8.0**
Maui Island	61.4	–1.4**	–7.3**
year to date	64.8	.....	–6.7**
Hawaii	52.5	3.2**	–12.9**
year to date	58.4	.....	–4.8**
Kauai	59.5	1.1**	–10.6**
year to date	58.9	.....	–10.2**

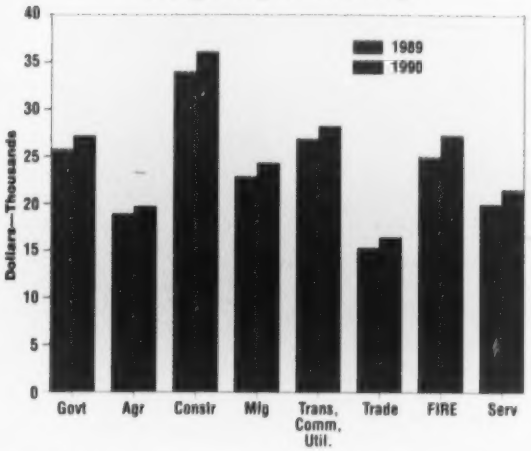
*p = preliminary *Annual rate **Incremental change*

Hawaii Business Activity *(Cont.)*

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Defense Appropriations			
Total Funds ($ mil., 3Q: 1991)	1,509.7[1]	.....	4.6
Military payroll	728.1[1]	.....	5.4
Civilian payroll	490.2[1]	.....	3.0
Local purchases	291.3[1]	.....	5.5
Agriculture (Year to October)			
Sugar Production (thous. tons)	652.6	.....	–13.3
Price per ton	434.40	.....	–7.0
Pineapple Production (thous. tons)	193,746	.....	–5.6
Honolulu Construction Cost Indexes (Sept.)			
Single Family (1982 = 100)	152.2	.....	–0.1
High Rise (1982 = 100)	150.8	.....	0.4
Private Permits ($ thous., year to Oct.)			
State Residential	1,298,831	.....	30.2
Nonresidential	610,849	.....	–13.0
Oahu Residential	838,452	.....	70.7
Nonresidential	465,625	.....	44.7
Maui County Residential	121,309	.....	–25.5
Nonresidential	57,091	.....	–70.3
Hawaii Residential	263,702	.....	18.4
Nonresidential	51,347	.....	–60.0
Kauai Residential	75,363	.....	–37.8
Nonresidential	36,171	.....	–39.3
Public Contracts Awarded			
State ($ thous., year to October)	619,549	.....	–9.2
Oahu	485,400	.....	–3.6
Maui County	56,201	.....	–32.3
Hawaii	43,018	.....	–7.5
Kauai	42,062	.....	–14.2
By Level of Government			
Federal	135,919	.....	24.9
State	359,220	.....	–23.0
County	113,334	.....	5.9
Real Estate Resales (October)			
State: Single Family (number)	297	.....	0.7
Average price	345,980	.....	–7.2
Condominium (number)	367	.....	–26.3
Average price	219,144	.....	–6.2
Oahu: Single Family (number)	184	.....	17.9
Average price	416,817	.....	–17.2
Condominium (number)	277	.....	–12.3
Average price	222,288	.....	–12.1
Maui County: Single Family (number)	27	.....	–35.7
Average price	335,629	.....	7.2
Condominium (number)	42	.....	–66.9
Average price	214,164	.....	–3.7
Hawaii: Single Family (number)	74	.....	–11.9
Average price	188,256	.....	8.0
Condominium (number)	37	.....	–7.5
Average price	202,249	.....	59.0
Kauai: Single Family (number)	12	.....	–7.7
Average price	255,729	.....	–8.8
Condominium (number)	11	.....	–26.7
Average price	215,818	.....	5.5

*p = preliminary *Annual rate **Incremental change*
[1] = Does not include Air Force and the Coast Guard

Hawaii Average Annual Wage by Industry



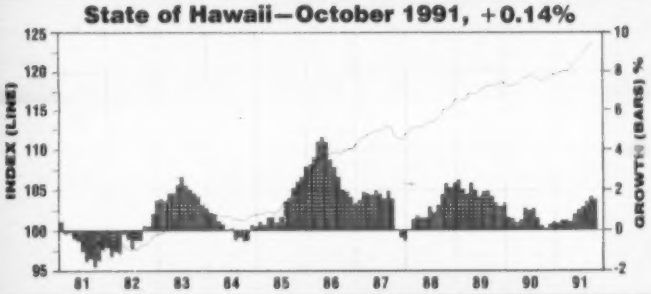
The State Department of Labor and Industrial Relations shows in its just released 1990 annual wage figures that all industries experienced wage gains. FIRE (finance, insurance and real estate) had the highest wage gains of 9.2 percent.

Hawaii Public Assistance

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Unemployment Insurance (October)			
Insured Unemployment (wkly. avg.)	8,019	-5.1	45.7
Intrastate Initial Claims	6,271	35.4	69.9
Interstate Initial Claims	379	21.9	26.3
Benefits ($ thous., year to date)	68,825	.....	62.1
Income Maintenance (October)			
Recipients (no. persons)	58,080	0.8	10.0
Payments ($ thous., year to date)	119,425	.....	10.7
Medical Assistance (October)			
Recipients (no. patients)	52,205	4.3	9.3
Payments ($ thous., year to date)	224,236	.....	18.7
Food Stamps (September)			
Recipients (no. persons)	85,989	-0.3	8.6
Payments ($ thous., year to date)	75,590	.....	25.1
Services (3rd qtr.)			
Recipients (no. cases)	6,411	7.5	-5.7
Payments ($ thous., year to date)	14,171	.....	-44.4

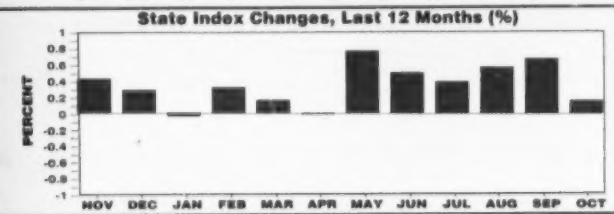
First Hawaiian Bank Index of Leading Economic Indicators

State of Hawaii—October 1991, +0.14%



The leading index increased by a weak 0.1 percent in October. While this was the sixth consecutive increase, it was the lowest rise in the six month period. Only four of the ten components were up. Credit demand remained strong on continuing bank loan demand. The trade-weighted exchange rate was also stronger; the dollar has been declining against other currencies on the outlook for the U.S. economy and lower U.S. interest rates. The largest drop came from a weak October visitor count. Hawaii's sluggish construction, stocks, and labor market also contributed to the fragility of the rise. At the county level, only Oahu and the Big Island showed increases.

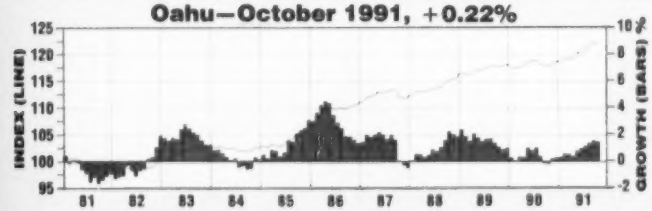
State Index Changes, Last 12 Months (%)



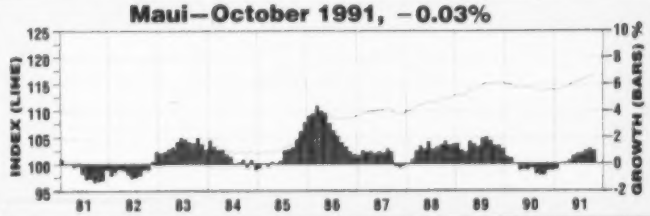
October State Index Component Changes

Credit Demand	+1.82%	Expected Purchasing Power	-0.22%
Trade-weighted Exchange Rate	+1.37%	Construction Contracts	-0.39%
Monetary Policy	+0.36%	Hawaii Stock Index	-0.53%
National Leading Index	+0.14%	Labor Market Conditions	-1.15%
Average Workweek Hour	-0.22%	Visitor Count	-1.32%

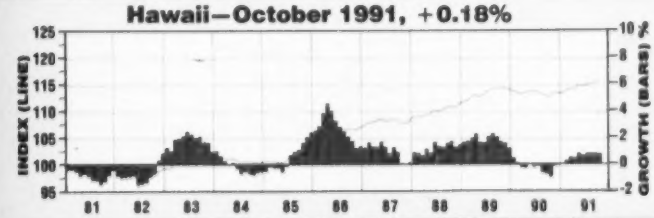
Oahu—October 1991, +0.22%



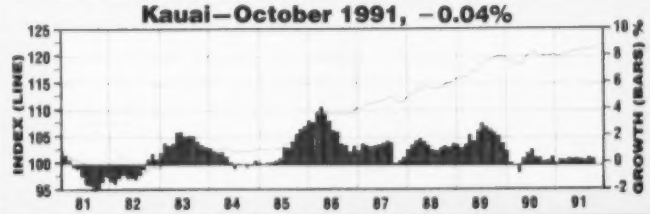
Maui—October 1991, -0.03%



Hawaii—October 1991, +0.18%



Kauai—October 1991, -0.04%



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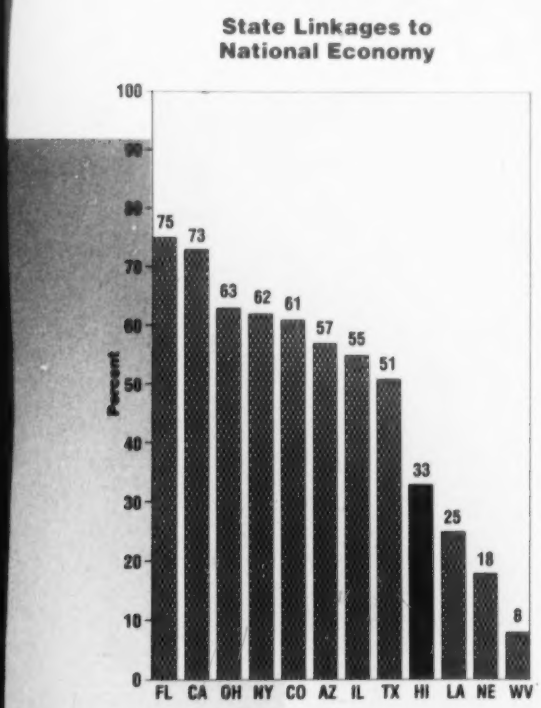
Current Business Trends: State Linkages to the National Economy



The U.S. economy is not easy to summarize. How closely individual states correspond to an overall national business cycle depends on economic structure and diversification, among other things.

This is important for how much attention we pay to national conditions in forecasting a state economy, the subject of this issue's inside article. A 1988 study by Carolyn Sherwood-Call of the Federal Reserve Bank of San Francisco quantified all 50 states' linkages to national economic fluctuations. Outcomes ranged from a high 75% linkage for Florida to only 8% for West Virginia.

The chart shows outcomes for several states. Larger, more diversified states like California showed a greater correspondence, as did those dependent on manufacturing. Energy extraction and agricultural states, other things equal, showed less correlation.

It is harder to generalize about large tourism states. Colorado and Arizona, in addition to top-ranked Florida, also had high linkages. The

A 1988 study quantified all 50 states' linkages to the national economy ... Hawaii ranked low; its 33% linkage was 39th down the list.

author concluded that, because a healthy national economy induces all people to take vacations, the nation drives those state economies directly. Yet Hawaii, perhaps the most obvious tourism state, ranked low; its 33% linkage was 39th down the list. Outcomes suggests that Hawaii's U.S. visitors are less influenced by national business conditions than most of those who travel on the mainland.

This study's data (1970-1986) included most recent national economic shocks. But for Hawaii, it excluded the period of Japanese tourism and investment growth here. Were the sample extended into the 1990s, Hawaii's link to the nation would likely be even less.

ECONOMIC INDICATORS

Research Department
First Hawaiian Bank
January/February 1992

Elections and the U.S. Economy

The relationship between politics and the business cycle is never more apparent than in an election year. This year, an incumbent president faces reelection with the national economy well into a recession.

Linkages operate in two directions. The economy can affect electoral outcomes, and from the other direction officeholders have incentives to influence the economy in order to gain reelection.

That the electorate votes its pocketbook should be no news to either politicians or voters. In the last eleven U.S. presidential election years (1948-1988), the incumbent political party has **always** regained the White House if the growth in real personal disposable income (RPDI) that year was 4.0% or higher. If RPDI growth was less than 4.0%, the out-of-office party **always** won. (See Chart 1.) The closest this record came to being broken was in 1968, when RPDI growth was 3.9%. Yet that year the incumbent Democrats were unusually handicapped by non-economic events. The consensus RPDI forecast for 1992 is now only 2.2%. A Republican win this year would thus break a 40-year record.

Politicians may try to redistribute income via changes in government regulations as elections near. They may also concentrate on the two major macroeconomic tools—monetary and fiscal policy.

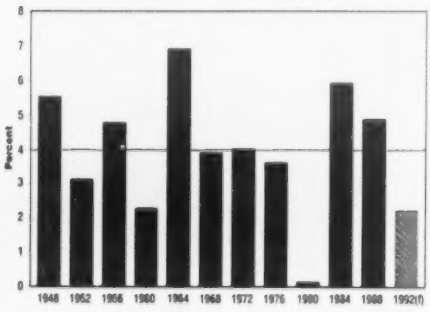
U.S. monetary policy is controlled by a central bank that is relatively independent of political ties. Certain episodes are often mentioned as evidence the Federal Reserve has aided incumbent administrations, but proving a systematic alliance between the central bank and the administration is difficult (see chart, page 4). It is fair to say that the state of the economy dominates Federal Reserve decisions, and election years do not always bring easy money if only because the economy itself is often healthy.

Proving a systematic alliance between the central bank and the administration is difficult . . . (but) fiscal policy follows the electoral cycle more closely.

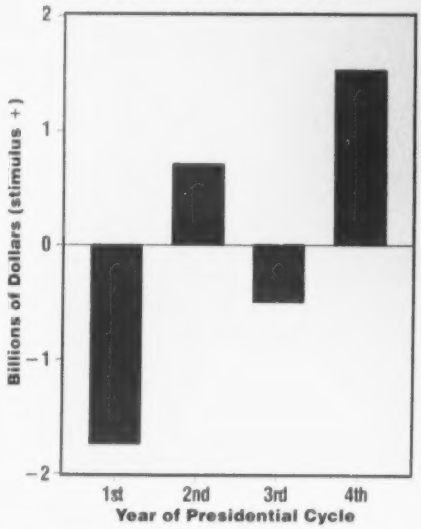
Fiscal policy, on the other hand, is more directly under the control of a sitting administration. Congress also gets into the act, and though incentives in the legislative branch may conflict with those of the executive, members of Congress also are driven to manipulate the economy to gain reelection.

Fiscal policy follows the electoral cycle more closely. Chart 2 shows a "politically-induced" component of the U.S. structural budget balance in each of the four years of a presidential cycle, computed by statistical analysis of the last eight terms. (A **structural** balance is already adjusted for the business cycle—that is, adding back tax revenues that would be obtained if the economy were fully employed and subtracting such things as unemployment compensation from spending.)

1. Real Personal Disposable Income Growth in Election Years



2. Political Component; Structural Budget Balance



The amounts shown are small relative to the total deficit, but they might be interpreted as the average quantities—other things equal—by which the deficit can be adjusted depending on the year of a typical presidential term. (The amounts by definition sum to zero over the four years of the cycle.) As expected, the budget deficit is more stringent in the first year and more stimulative in the fourth, or election, year. Interestingly, there even seems to be a minor stimulus suggested in the second year of the cycle, corresponding to off-year Congressional elections.

Linkages between elections and the economy are not always obvious, but they can be found. This issue's inside article focuses on such relationships at the state level.

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Hawaii and the Political Business Cycle

Linkages between any state's politics and its economic cycle are likely to be less obvious than those at the national level. State politicians usually have less control over their economy, and the electorate may also hold them less accountable. A state economy is influenced in greater or lesser degree by national economic trends, and there may be other external factors—even international ones—to take into account. For example, Hawaii's Japanese linkage in recent years is an outside factor for this state. Yet it is still possible to explore for Hawaii some of the relationships found to operate at the national level in this issue's cover article.

The correspondence between Hawaii's income and success or failure of the incumbent political party in state executive branch elections cannot be examined as directly as it can be for the nation. Like several other states, one political party is dominant in Hawaii. The Democratic Party has occupied the statehouse in all but the first term after statehood. (In 1959, a special election to fill the offices coming with statehood resulted in narrow victory for Republican William Quinn, Eisenhower's territorial appointee. Quinn's defeat in the first regularly scheduled election in 1962 by Democrat John Burns marked the first of eight Democratic victories in subsequent gubernatorial contests.)

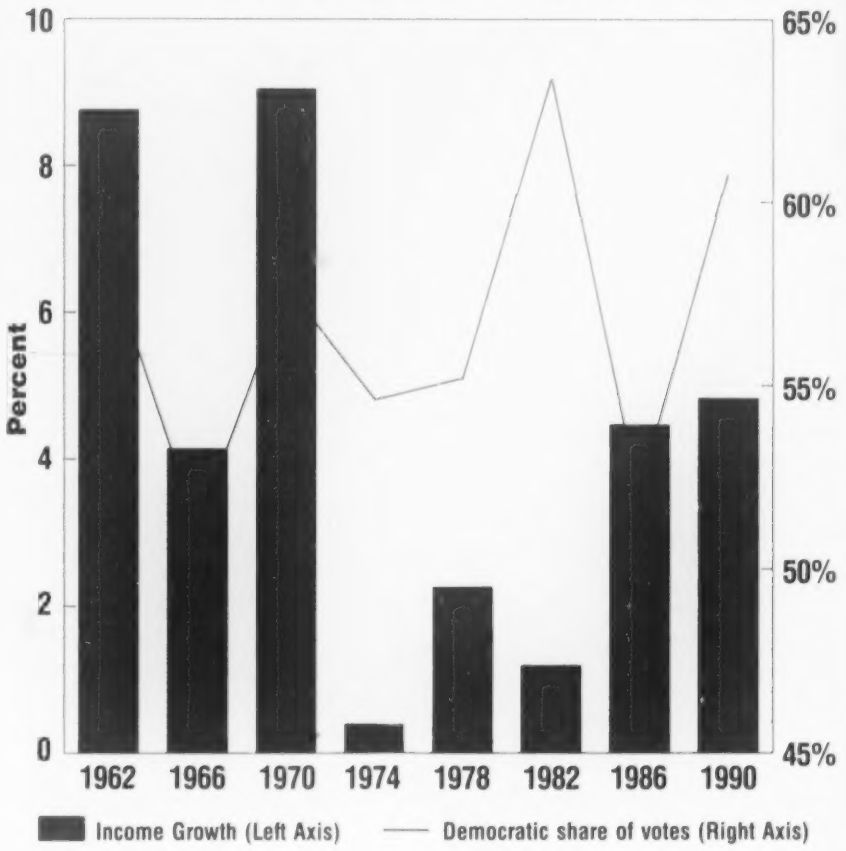
It is possible, however, to compare other measures—such as the Democratic percentage of the voter turnout—to a corresponding state income measure. Chart 1 contrasts state real personal disposable income growth to the percentage of the popular vote captured by the Democratic candidate. In the first five regular state gubernatorial elections shown, there is a rough correspondence between real income growth and the margin of victory by the incumbent party. That relation appears to break down in the three most recent contests, however—the last Ariyoshi election and the two successful bids by John Waihee. Any economic dissatisfaction shown by the income series apparently was not reflected substantially by voting for the opposition Republican Party in those elections.

In the first five regular state gubernatorial elections, there is a rough correspondence between real income growth and the margin of victory by the incumbent party. That relation appears to break down in the three most recent contests, however.

The second national political linkage mentioned in the cover article involves the budget balance. Using statistical techniques to adjust Hawaii's fiscal balance for the state economic cycle, and then applying the same methods as before to isolate any regularities over the four-year governor's term, yields results shown in Chart 2.

The state's budget balance does indeed appear more stimulative in the fourth, or election, year of the cycle. Unlike the national result, however, the off-year Legislative election in the second year of the cycle brings less added stimulus. These "politically induced" components, like the computed national amounts, sum to zero and are very small compared to the overall fiscal balance. Note also that in Hawaii's case the stimulus comes as a

1. Real Disposable Income Growth vs. % of Democratic Votes
(Hawaii Gubernatorial Elections)



lower surplus rather than the higher deficit found nationally.

This added fiscal stimulus may come from either lower taxes or higher expenditures. (In either case, its delivery is much more palatable with an overall budget surplus than if the state fiscal balance were in deficit as the nation's is.) Discretionary spending changes are usually easier to implement than tax changes that affect the revenue side.

At least some politically-induced spending in recent years may have come from the timing of government construction contracts. Examination of the record shows that political components in government construction awards have come more from state contracts than from the counties or from Federal funding over which local authorities have some control.

Chart 3 traces state contracts over the past 30 years, marking all even years—those in which some kind of state election occurred. Earlier in the interval, contract surges do not relate to those even years, but the correspondence in the last five such years is quite obvious.

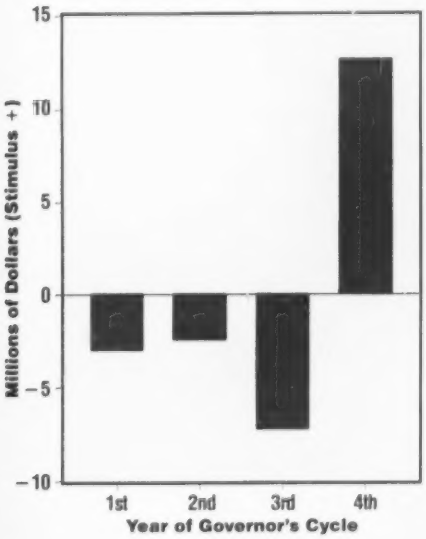
It is clear from observing the state economic cycle itself, however, that other influences besides politically motivated ones dominate. That is, any attempts by incumbent politicians to affect the overall state economy have been overwhelmed by other forces. In the last eight gubernatorial election years, real gross state product growth has averaged 3.1%; in all other years the average was 5.5%. In all even years, state growth has averaged 4.9%, but odd years also average 4.9%. The only two years in which there has been a contraction in real gross state product—1974 and 1982—have also been gubernatorial election years. Yet those two years of state recession corresponded to serious national recessions, brought on in the first episode mainly by higher international oil prices and in the latter by higher national interest rates. These were external developments for which local pols could easily escape blame. In fact, the 1982 Ariyoshi win was by a record high share of the popular vote—over 63%.

The state's budget balance does indeed appear more stimulative in the fourth, or election, year of the cycle.

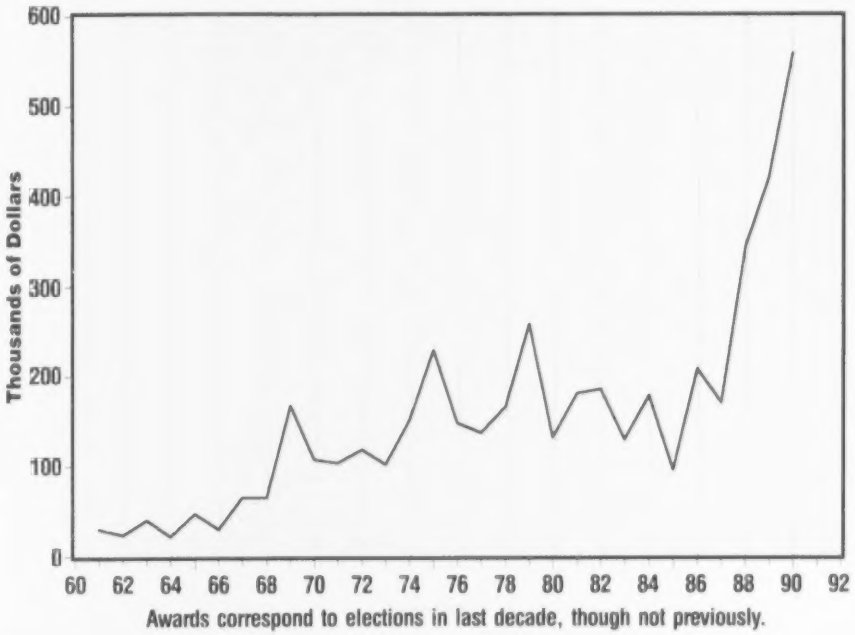
Thus, while definite linkages to the political cycle can be observed at the state level, these are muted relative to those at the national level. State politicians may in turn be less motivated to manipulate the overall economy for reelection purposes because of their belief that other factors will be more important.

This does not mean that economic **issues** are not important in state politics. Naturally some of these can be critical in local campaigns and election outcomes. The major implication is that the overall state business cycle does not receive the attention that the national cycle gets in the country's politics, so that there is probably less local incentive to manage the state business cycle per se.

2. Political Component; State Structural Budget Balance



3. State Construction Awards vs. Election Years



Awards correspond to elections in last decade, though not previously.

Hawaii Population & Income

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Population			
State residents (thous., July 1, 1990)	1,111.8	.....	1.3
de facto	1,255.9	.....	0.6
Oahu residents (thous., July 1, 1990)	838.1	.....	0.4
de facto	911.9	.....	0.3
Maui residents (thous., July 1, 1990)	101.2	.....	4.8
de facto	139.1	.....	0.1
Hawaii residents (thous., July 1, 1990)	121.0	.....	3.8
de facto	136.0	.....	2.8
Kauai residents (thous., July 1, 1990)	51.5	.....	3.6
de facto	68.8	.....	1.2
Military personnel (thous., July 1990)	53.8	.....	–4.5
Civilian dependents	63.3	.....	5.1
Foreign Immigration (no., 1991)	5,369	.....	–16.3
Total Personal Income			
($ mil., 3rd Qtr. 1991)	24,214	3.3*	5.2
Employment Income	18,424	3.8*	5.4
Manufacturing	726	3.4*	2.8
Construction & Mining	1,754	8.9*	11.6
Wholesale	729	2.2*	4.0
Retail	2,104	7.1*	3.8
Finance, Ins., & Real Estate	1,396	4.4*	5.5
Trans., Comm., & Utilities	1,496	1.3*	0.9
Services	5,264	10.2*	7.3
Farm & Other	395	13.1*	8.8
Federal Civilian	1,142	10.4*	3.8
Federal Military	1,423	–17.9*	0.1
State & Local	1,996	–4.9*	5.8
Property Income	3,390	–4.2*	–2.2
Transfer Payments: net of personal contributions for social insurance	2,399	10.1*	16.5
Per Capita Personal Income ($, 1990)	20,356	.....	9.1

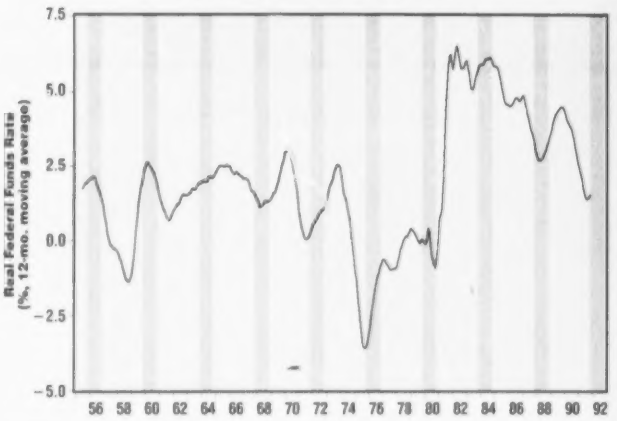
*Annual Rate

International Indicators

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Hawaii Real Trade-Weighted Exchange Rate Index (1980 = 100, Nov.)	115.72	0.3	1.3
Japan			
Real GNP (yen bil., 2Q: 1991)	423,028	2.0*	5.0
Yen/$ exchange rate (Nov.)	129.68	–0.8	0.5
Current Balance ($ bil., Oct.)	6.73	–2.1**	4.0**
Discount rate (%, Dec.)	4.5	–0.5**	–1.5**
Long-term prime rate (%, Jan. 31, 1991)	6.6	–0.3**	–1.2**
Nikkei Stock Index (avg. Nov.)	23,796	–3.4	1.4
Real GNP/GDP, Other Hawaii Trade Partners (1985 Prices)			
Canada (GDP, bil. C$, 3Q: 1991)	550.4	0.9*	–0.8
Australia (GDP, bil. A$, 2Q: 1991)	264.4	–3.9*	–2.4
New Zealand (GDP, mil. NZ$, 1Q: 1991)	45,899	–15.6*	–2.8
Korea (GDP, bil. won, 2Q: 1991)	31,523	39.5*	9.4
Taiwan (GNP, bil. NT$, 2Q: 1991)	952.8	6.7*	10.2
Singapore (GDP, mil. SGD, 1990)	57,076	.....	8.3
Philippines (GNP, bil. pesos, 2Q: 1991)	175.2	12.8*	–0.2
United Kingdom (GDP, bil. £, 2Q: 1991)	406.3	–1.8*	–3.6
Germany (GNP, bil. DM, 2Q: 1991)	2,211.5	–2.2*	2.7

*Annual Rate **Incremental change

Federal Funds Rate (Inflation-Adjusted) Before National Elections



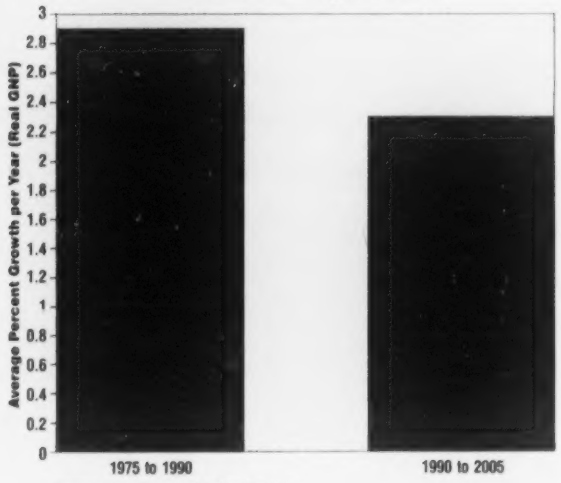
Measuring the stance of monetary policy by an inflation-adjusted Federal Funds rate, the Federal Reserve has clearly eased in only three of the last nine election years, and in only one of the last seven.

U.S. Economic Indicators

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Gross Domestic Product			
($ bil., 4th Qtr.)	5,736.6	1.9*	3.2
In 1987 dollars	4,866.3p	0.3*	0.2
Personal Income (November)	4,878.7p	–0.6*	2.4
Real Per Capita Disposable Income (1987 dollars, November)	13,922p	–0.5	–0.9
Productivity Index			
Nonfarm business sector (1982 = 100, 3rd Qtr.)	108.6	0.2	0.6
Civilian Employment (mil., Dec.)	116.7	–0.1	–0.8
Unemployment rate (%, Dec.)	7.1	0.2**	1.2**
Capacity Utilization (%, Nov.)	79.1p	–0.5**	–2.5**
Consumer Confidence Index (1985 = 100, January)	50.4p	–4.0	–8.5
Price Indexes			
CPI-U (1982-84 = 100, December)	139.7	3.7*	4.2
PPI-Finished Goods (82 = 100, Dec.)	122.3	–2.4*	–0.5
Prime Interest Rate (%, December)	7.2	–0.4**	–2.8**
Federal funds rate (%, December)	4.4	–0.4**	–2.9**
3-Month Treasury bill (%, December)	4.1	–0.5**	–2.7**
30-Year Treasury bond (%, December)	7.7	–0.2**	–0.5**
Money Supply (M2, $ bil., seas. adj., November)	3,408.5	4.6*	2.6
Domestic Nonfinancial Debt ($ bil., October)	10,863.6p	0.5	5.0
Corporate Profits—After Tax ($ bil., 3rd Qtr.)	189.6r	3.8	–3.4
Common Stock (DJIA, Dec.)	2,958.64p	–0.9	13.3
Current Balance ($ bil., 3rd Qtr.)	–10.5p	–13.5**	13.4**
Trade Balance ($ bil., 3rd Qtr.)	–20.5p	–5.1**	8.3**

r = revised p = preliminary *Annual rate **Incremental change

Long-term U.S. Economic Growth Projection



Source: U.S. Bureau of Labor Statistics

Current projections indicate that the U.S. economy will grow more slowly into the next century than it has in the past. Underlying this slowdown is lower labor force growth, partly offset by higher labor force participation rates and productivity.

Hawaii Banking & Finance

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Commercial Bank Deposits ($ bil., 12-month ending December)			
State Total Deposits	157.2	.....	5.5
Debits to demand deposits	239.9	.....	10.2
Oahu Total Deposits	130.9	.....	6.2
Debits to demand deposits	221.5	.....	11.4
Maui Total Deposits	10.4	.....	-0.7
Debits to demand deposits	7.7	.....	-6.9
Hawaii Total Deposits	10.7	.....	2.6
Debits to demand deposits	7.2	.....	0.2
Kauai Total Deposits	5.1	.....	5.0
Debits to demand deposits	3.5	.....	3.9
Bank Loans Outstanding ($ mil., 3rd Qtr.)			
State	9,789.7	1.3	7.8
Real Estate	5,017.3	2.5	16.0
Consumer	1,203.1	-0.6	-7.6
Commercial & Industrial	2,869.8	-1.2	4.8
Other	604.0	10.9	15.4
Conventional Home Mortgage Rate			
Honolulu (%, 3rd Qtr.: 1991)	8.67	-0.51**	-1.06**
State Tax Collections ($ mil., Dec.)	2,780.6	.....	7.0

***Incremental change*

Hawaii Employment & Jobs

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Civilian Employment (thous., November)			
State Labor Force	559.8p	0.0	2.5
Employment	543.6p	-0.1	2.3
Unemployment rate (%)	2.9p	0.0**	0.2**
Oahu Labor Force	402.5p	0.2	1.7
Employment	392.7p	0.2	1.7
Unemployment rate (%)	2.4p	-0.1**	-0.1**
Maui Labor Force	61.6p	0.2	5.4
Employment	59.3p	0.0	4.3
Unemployment rate (%)	3.8p	0.3**	1.0**
Hawaii Labor Force	65.4p	-1.4	4.4
Employment	62.6p	-1.3	3.3
Unemployment rate (%)	4.4p	0.2**	1.0**
Kauai Labor Force	30.2p	-0.7	4.1
Employment	29.0p	-1.0	3.4
Unemployment rate (%)	3.8p	0.1**	0.5**
Job Count by Industry (thous., November)			
Total Jobs—State	595.1p	0.6	1.0
Oahu	447.9p	0.9	0.5
Maui County	57.7p	0.6	3.0
Hawaii	60.1p	18.6	2.2
Kauai	29.5p	-0.3	2.3
Sugar (mill & field)	5.4p	0.0	-2.7
Pineapple (cannery & field)	3.2p	-1.5	-1.5
Diversified Agriculture	9.9p	-3.9	13.1
Diversified Manufacturing	16.3p	0.3	-3.3
Durable goods	4.1p	0.0	-5.8
Non-durable goods	12.3p	0.4	-2.0
Apparel & textiles	1.9p	0.0	-9.5
Contract Construction	32.5p	-0.8	-0.9
Transportation	31.9p	0.3	-1.8
Communication	7.4p	0.7	0.0
Utilities	3.2p	0.0	3.3
Retail Trade	113.7p	0.9	-1.2
Wholesale Trade	22.5p	-0.2	-0.9
Finance, Insurance, & Real Estate	38.3p	0.4	2.1
Hotel Services—State	40.9p	-0.1	1.4
Oahu	19.4p	0.3	-2.0
Maui County	10.5p	0.5	9.9
Hawaii	6.4p	-3.1	-3.1
Kauai	4.6p	0.0	3.4
Other Services	119.7p	0.2	2.4
Federal Government	32.8p	-0.2	-0.3
Civilian Agencies	14.1p	-0.4	2.2
Defense Department	18.7p	0.0	-2.1
State Government	63.8p	6.1	4.5
County Government	14.7p	0.3	2.1
Non-Agriculture Self-Employed	39.2p	-2.1	1.8

***Incremental change*

Dr. Leroy O. Laney, Vice President and Chief Economist
William S. Akamine, Jr., Assistant Vice President
Linda L. Uchida, Librarian

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Hawaii Business Activity

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
State Gross Business Receipts			
($ mil., year to November)	39,201.0	.....	3.6
Diversified Manufacturing	640.4	.....	-5.9
Diversified Agriculture	271.3	.....	-7.9
Retailing	12,632.5	.....	1.4
Wholesaling	10,056.6	.....	0.9
Services	9,445.1	.....	9.0
Construction	3,957.5	.....	5.7
Other	2,206.5	.....	8.9
Retail Car Sales—State			
(Number, 1991)	40,733	.....	-7.3
Oahu	31,299	.....	-5.1
Maui	3,758	.....	-9.0
Hawaii	4,134	.....	-10.1
Kauai	1,542	.....	-30.9
Honolulu CPI (1982-84 = 100, 1st half 1991)			
Urban Wage Earners &			
Clerical Workers	147.7	8.6*	8.4
All Urban Consumers	146.8	8.5*	8.3
Tourism (Number, December)			
Overnight or Longer Visitors	602,270p	10.5	4.0
year to date	6,824,320p	.....	-2.1
Westbound Visitor Count	385,800p	5.6	7.0
year to date	4,568,520p	.....	-3.2
Oahu	239,080p	6.1	3.3
year to date	2,889,690p	.....	-8.9
Maui County	155,520p	0.4	6.0
year to date	1,917,610p	.....	-3.9
Hawaii	74,460p	-3.6	1.9
year to date	971,130p	.....	-1.2
Kauai	80,850p	-3.8	9.3
year to date	1,081,150p	.....	-3.4
Average Daily Census	125,950p	15.1	-1.5
Average Length of Stay (days)	11.0p	22.2	8.7
Eastbound Visitor Count	216,470p	20.5	-1.0
year to date	2,255,800p	.....	0.2
Oahu	209,560p	21.8	-1.3
year to date	2,169,730p	.....	-0.4
Maui County	31,980p	1.8	-12.4
year to date	400,280p	.....	1.4
Hawaii	15,910p	2.5	-11.4
year to date	191,670p	.....	2.0
Kauai	14,780p	3.8	0.8
year to date	168,740p	.....	0.8
Average Daily Census	40,710p	25.0	1.2
Average Length of Stay (days)	5.8p	6.4	2.3
Hotel Occupancy Rate—State			
(%, December)	69.1	-4.8**	1.2**
year to date	72.4	.....	-6.6**
Oahu	81.2	-3.1**	4.1**
year to date	80.3	.....	-6.3**
Maui Island	53.7	-5.9**	-2.1**
year to date	63.4	.....	-6.7**
Hawaii	47.4	-8.1**	-0.8**
year to date	57.2	.....	-4.8**
Kauai	48.3	-7.6**	-4.8**
year to date	57.7	.....	-9.7**

*p = preliminary *Annual rate **Incremental change*

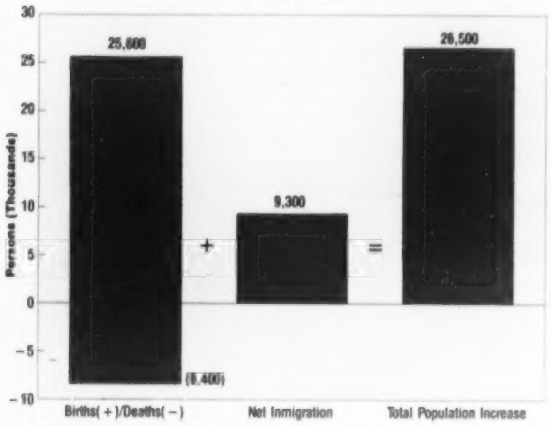
Hawaii Business Activity *(Cont.)*

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Defense Appropriations			
Total Funds ($ mil., 3Q: 1991)	1,556.5[1]	.....	4.6
Military payroll	727.1[1]	.....	5.2
Civilian payroll	481.4[1]	.....	3.0
Local purchases	348.0[1]	.....	5.7
Agriculture (Year to December)			
Sugar Production (thous. tons)	724.1	.....	-11.7
Price per ton	431.40	.....	-7.3
Pineapple Production (thous. lbs.)	229,946	.....	-3.9
Honolulu Construction Cost Indexes (Sept.)			
Single Family (1982 = 100)	152.2	.....	-0.1
High Rise (1982 = 100)	150.8	.....	0.4
Private Permits ($ thous., year to Dec.)			
State Residential	1,512,890	.....	20.9
Nonresidential	701,491	.....	-19.3
Oahu Residential	985,814	.....	64.4
Nonresidential	534,433	.....	26.7
Maui County Residential	132,946	.....	-36.4
Nonresidential	67,959	.....	-70.0
Hawaii Residential	310,687	.....	17.3
Nonresidential	58,765	.....	-62.8
Kauai Residential	83,539	.....	-52.9
Nonresidential	39,718	.....	-37.2
Public Contracts Awarded			
State ($ thous., year to December)	729,443	.....	-11.6
Oahu	565,767	.....	-0.1
Maui County	66,513	.....	-56.6
Hawaii	56,816	.....	2.5
Kauai	47,479	.....	-5.7
By Level of Government			
Federal	145,434	.....	29.4
State	441,996	.....	-20.8
County	130,938	.....	-15.8
Real Estate Resales (December)			
State: Single Family (number)	253	.....	-4.5
Average price	359,805	.....	-8.0
Condominium (number)	349	.....	-13.8
Average price	212,165	.....	-10.6
Oahu: Single Family (number)	147	.....	11.4
Average price	426,593	.....	-9.9
Condominium (number)	255	.....	-3.0
Average price	216,001	.....	-7.5
Maui County: Single Family (number)	26	.....	-33.3
Average price	301,923	.....	-36.0
Condominium (number)	57	.....	-41.8
Average price	213,885	.....	-17.7
Hawaii: Single Family (number)	69	.....	-6.8
Average price	262,260	.....	17.1
Condominium (number)	22	.....	-31.3
Average price	171,033	.....	-23.0
Kauai: Single Family (number)	11	.....	-45.0
Average price	215,497	.....	-30.1
Condominium (number)	15	.....	25.0
Average price	199,500	.....	10.9

*p = preliminary *Annual rate **Incremental change*
[1] = Does not include Air Force and the Coast Guard

State Population Growth

15 Months Since 1990 Census



Source: Department of Business, Economic Development & Tourism

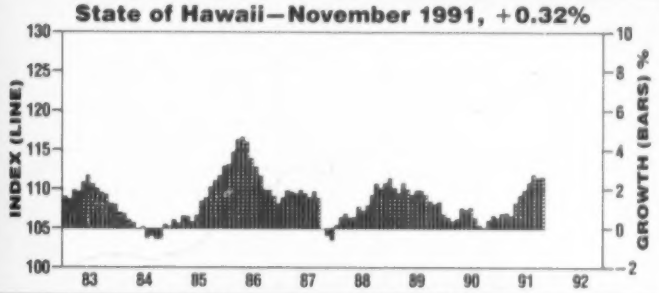
Hawaii's population grew 2.4% in the 15 months after the 1990 census, compared to 1.4% for the nation. Though out-migration is encouraged by high living costs, new residents more than replace those leaving. For the period, the net in-migration was 9,300 new people.

Hawaii Public Assistance

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Unemployment Insurance (December)			
Insured Unemployment (wkly. avg.)	7,844	2.0	57.5
Intrastate Initial Claims	5,566	22.1	28.4
Interstate Initial Claims	303	−2.9	18.4
Benefits ($ thous., year to date)	84,684	.....	65.8
Income Maintenance (December)			
Recipients (no. persons)	58,727	−0.4	10.2
Payments ($ thous., year to date)	145,299	.....	11.4
Medical Assistance (November)			
Recipients (no. patients)	51,737	−7.0	6.0
Payments ($ thous., year to date)	272,760	.....	18.1
Food Stamps (November)			
Recipients (no. persons)	88,542	1.1	10.0
Payments ($ thous., year to date)	94,434	.....	23.1
Services (4th qtr.)			
Recipients (no. cases)	6,304	−1.7	−3.6
Payments ($ thous., year to date)	18,690	.....	−30.8

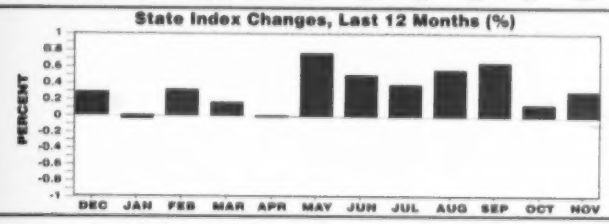
First Hawaiian Bank Index of Leading Economic Indicators

State of Hawaii—November 1991, +0.32%



The leading index increased by 0.3 percent in November. This was the seventh consecutive monthly increase, indicating that the Hawaiian economy should continue to grow in the months ahead. For November, six of the ten components rose. Labor market conditions improved on a drop in unemployment filings, and credit demand remained strong on continuing bank loan demand. Easier money and a weaker dollar were also a boost. Of the declining components, the largest drop came from expected purchasing power (despite the current low inflation environment, the spread between short- and long-term interest rates remained wide), and a weak national leading index. All county level indexes increased.

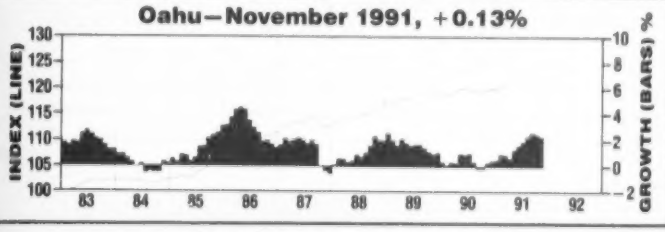
State Index Changes, Last 12 Months (%)



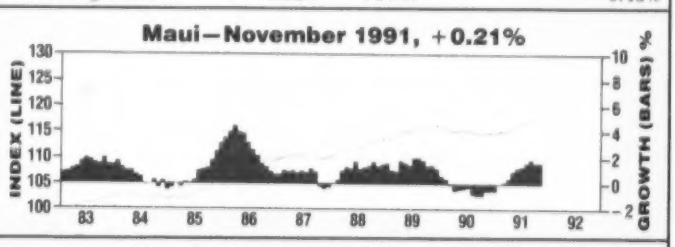
November State Index Component Changes

Labor Market Conditions	+1.15%	Construction Contracts	+0.22%
Credit Demand	+1.03%	Average Workweek Hour	−0.07%
Monetary Policy	+0.61%	Hawaii Stock Index	−0.10%
Visitor Count	+0.46%	National Leading Index	−0.30%
Trade-weighted Exchange Rate	+0.32%	Expected Purchasing Power	−0.43%

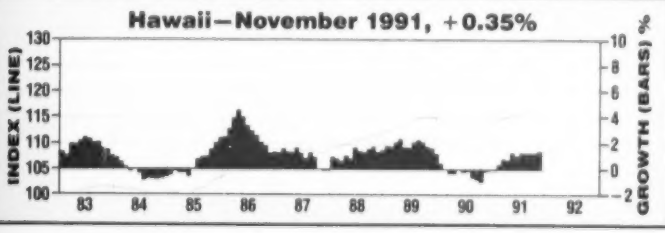
Oahu—November 1991, +0.13%



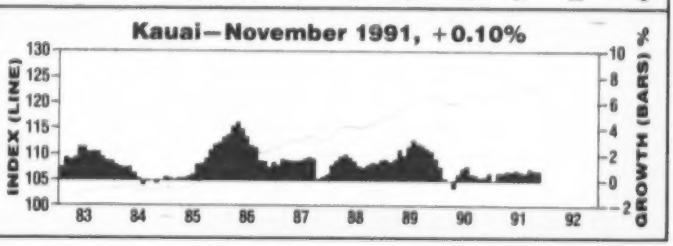
Maui—November 1991, +0.21%



Hawaii—November 1991, +0.35%



Kauai—November 1991, +0.10%



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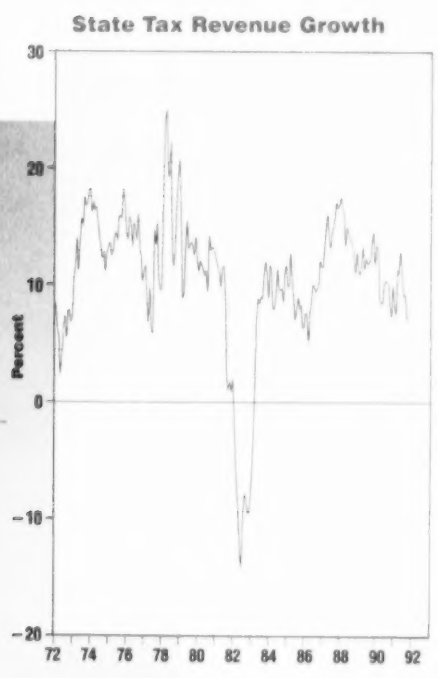
Current Business Trends: Tax Revenue Growth



Prospects of slower economic growth usually bring worry to state and local government officials about funding various government operations. Unlike the national government, state and local governments' abilities to raise funds through issuing debt are more limited, and given the current fiscal plight of many states, fiscal conservatism at the state and local level is also prudent.

Hawaii's budget has generally been in surplus. Indeed, much of this is due to the economic growth the state has experienced throughout much of its history. Hawaii's two main growth industries, tourism and construction, have been in relative infant stages of development as compared with the major industries of many mainland states.

As the chart shows, for about a 20 year period, state tax revenues were in decline for just one episode, the 1982 recession. Tax revenues managed to grow even during the 1974 recession. Currently, there are concerns about the future trend of state government revenues since tax collections have recently been weaker.

While the current tax collection environment seems to be healthier than the 1982 recession period, the concerns are well-founded. The slower growth comes on the heels of the lower growth forecasts of this Bank as well as other business forecasters in the state. The downtrend in state revenue growth over the last several years may continue, but negative growth is still quite unlikely on the basis of previous performance in slower growth times.

The downtrend in state revenue growth over the last several years may continue, but negative growth is still quite unlikely on the basis of previous performance in slower growth times.

ECONOMIC INDICATORS

Research Department
First Hawaiian Bank

March/April 1992

Hawaii's Economy Slows Further

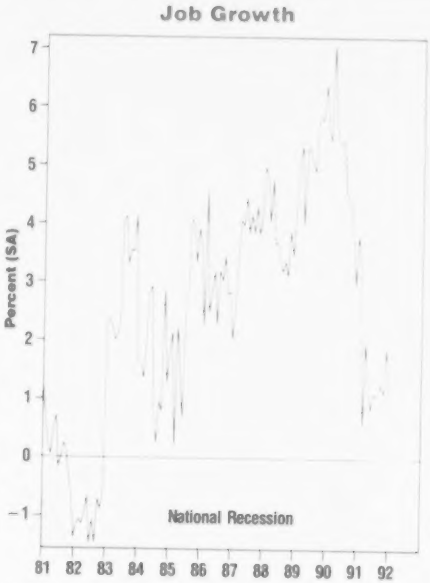
Hawaii's economy continues its systematic slowdown from the boom years of the late 1980s. Recently that slowdown has accelerated, driven by lower construction activity than expected earlier and the failure of tourism to recover as hoped. It is now months after the mainland economy entered its most recent recession. On the eve of national recovery, will that long awaited recession finally—and ironically—arrive in the islands?

The most recently published official state forecast for 1992 real gross state product is 2.5%, close to what most private forecasters—including First Hawaiian Bank's Research Department—originally projected. That estimate will almost surely be proven optimistic, but we must wait a year to find out if the annually published number actually turns negative for 1992.

Some monthly coincident indicators show recession has not arrived here. Hawaii's economy is still creating jobs, albeit sluggishly. (Lower total hours worked recently paint a more somber picture; see back cover, this issue.) Job count growth shown in the chart has stabilized in the 1% range after falling from the heights of several years ago. The contraction in jobs in the 1981-82 interval corresponded almost exactly to the last national recession.

Lingering mainland weakness undoubtedly has had an effect on tourism, especially because California—source of many of our mainland tourists—has been much weaker than usual in this cycle. Yet Hawaii's overall economy might be showing fewer signs of mainland debility were it not for two other at least somewhat unrelated developments.

First, Japan's descent. Our state's linkages to Japan in recent years—via



both tourism and investment—have been a source of economic diversification and strength. But now, while tourism is holding up relatively well, lower Japanese investment activity is taking its toll. Major downturns in Japanese equity and real estate markets, and a related retrenchment in Japanese bank financing, have been palpable.

Second, our local construction cycle—which like most building cycles runs partially independent of the overall economic cycle—is now winding down, too. While some of the construction weakness is related to the external financing factor, some of it would be occuring now in any case. We now look to the public sector and some residential projects as sources of continued strength in construction, but these cannot possibly fill all the gap. After the record building boom of the last seven years, we also can expect a longer than traditional spell of lower construction numbers.

U.S. recession, Japan's weakness, and our own building cycle now combine to bring Hawaii closer to the recession it could otherwise escape. This "layering" of developments is partly responsible for the gradual slowing in our economy, unlike many regional recessions brought on by a single event—like a sudden blow to a state's major industry.

Remaining strength in Hawaii's economy is centered mostly in Honolulu, thanks to its greater diversity and eastbound tourists. Our Bank's leading economic indexes for each of the three neighbor island counties have been weaker than for Oahu for several months, and each has now declined two months in a row. Declining construction, anemic visitor numbers, and lower hotel occupancies partly driven by increased upper end room supply are all felt more acutely in the less diversified neighbor islands.

U.S. recession, Japan's weakness, and our own building cycle now combine to bring Hawaii closer to the recession it could otherwise escape.

So 1992 could be a difficult year for Hawaii. Calling entry into recession by month is more art than science. Each of the "three Ds" defining recession—dispersion, depth, and duration—must be considered, and we are likely to see the first two before the third. But as we have often emphasized, crossing the actual line is not as important as the trend toward lower growth that has been quite apparent for a couple of years now.

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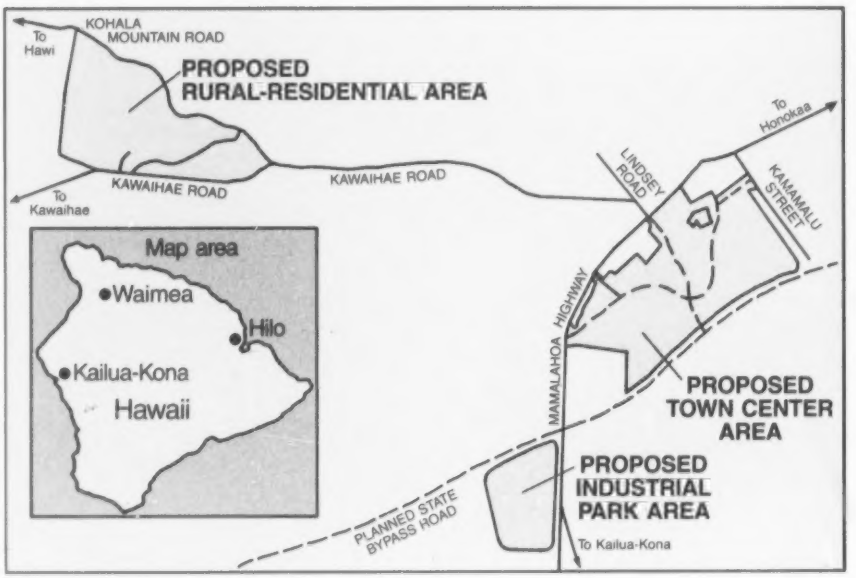
Parker Ranch 2020 and Waimea as a Developing Population Center

The Big Island of Hawaii is exceptional in many ways. For example, real estate is still relatively inexpensive compared to the more urbanized Oahu and Maui and the housing-short Kauai. And the Big Island has the state's only active volcano, a unique boost to its visitor industry. More important for development, the Big Island has an abundance of land. With almost seven times the land mass of Oahu, congestion is not as critical an issue.

The island has three fully integrated and distinct communities: the county seat of Hilo on the east side, the tourism-oriented Kailua-Kona on the west side, and the ranch town of Waimea on the route between Hilo and Kailua-Kona. (Waimea is also referred to by its post office name of Kamuela.) Each of these population centers cater to different lifestyles. They may mean little individually, but together they create an uncommon diversity.

Parker Ranch, one of the largest singly-owned ranches in the U.S., is proposing a 660-acre expansion for Waimea, under a project called Parker Ranch 2020. The expansion of the town would include commercial, industrial, and housing developments. Overall, Parker Ranch is planning for the orderly development of Waimea through the year 2020 that would result in uncongested but needed growth. Yet the "cowboy ambience" lifestyle of the community would be preserved.

Waimea is a high-growth area. According to the 1990 Census, Waimea is part of census tract 217, which averaged 10 persons per square kilometer, versus ratios of 11.5 for the island of Hawaii, and 648.7 for the state. In spite of this low density, its population grew by 98 percent from 1980 to 1990, versus 31 percent for the Big Island and 15 percent for the state. While most of the land in the census tract is ranch land, population is concentrated in the new and growing



Waikoloa community and Waimea. With this kind of population growth, if Waimea is to preserve its low density and ranching lifestyle, it will have to expand outward.

A favorable aspect of this project is that it is not tourism driven—the Big Island like other isle tourism destinations has an oversupply of hotel rooms. Nor is it as risky as developing an entirely new community, like undertakings on the other islands where infrastructure has to be built from scratch and residents and commercial enterprises have to be relocated. More importantly, Waimea is coming into its own as an integrated community with a health center, more commercial shops, financial service companies, education facilities (such as the prominent Hawaii Preparatory Academy), and a scientific community. The last item is especially noteworthy. While Waimea is known predominantly as the home of Parker Ranch, and indeed its tourism trade builds on the ranching industry, it may soon be just as well known for astronomy. The Canada-France-Hawaii and Cal-Tech (KECK) astronomy groups are located there, providing a significant number of higher income jobs in the locality. Also, due to its unique cooler environment at a higher elevation—and elements of an integrated, diversified community—Waimea can become an upscale residential and retirement community.

Parker Ranch is proposing a 660-acre expansion for Waimea, under a project called Parker Ranch 2020.

The proposed development will take place at three locations. The major portion is the 388-acre "Waimea Town Center," located along Mamalahoa Highway behind the Parker Ranch Center, composed of both commercial and residential developments. Second, there will be a 229-acre rural residential development located between Kohala Mountain Road and

Kawaihae Road. Third, a 25-acre industrial park is proposed near the Waimea-Kohala Airport.

In the Waimea Town Center portion, the residential development is to include 546 single-family lots on 184 acres and 418 multi-family units on 44 acres. The commercial center is expected to span 43 acres. Acreage is set aside for parks and an equestrian trail (15 acres), expansion of Waimea school (13 acres) and the Lucy Henriques Medical Center (3 acres) where a hospital for the community is proposed. A 40-unit elderly housing project is planned adjacent to the medical facilities.

This venture is probably the most ambitious one now underway for an already existing and older community. The goal is to preserve a lifestyle while accommodating growth.

Planned for the rural residential development are 37 AG-3a zoned lots (3-acre, single-family home lots to be used in conjunction with agricultural activities) and 80 lots of 15,000 square feet and 20,000 square feet in size. The 25-acre light industrial park will be used for warehousing and storage. (So far, rezoning from agriculture to urban has been approved by the state Land Use Commission and the County Planning Commission. The plan has passed the initial "first reading" of the County Council, and it will return for a second and final reading in May.)

Overall, the housing developments should create enough homes for an additional 3,000 to 4,000 Waimea residents. Parker Ranch hopes to create housing for a wide income range, including affordable housing. Construction is expected to span seven to nine years, with an absorption rate of 100 to 150 homes per year.

Expanding Waimea Town will be no small feat considering infrastructure limitations. For example, a 1.3-million gallon per day water system is needed to support plans, and Parker Ranch is proposing to drill a well to provide this for the system. This well would feed into the county's water system, serving both the project and the community. A ground water source will provide a more stable source of water than the current surface water system, which is susceptible to droughts and stricter EPA regulations.

Another concern is traffic. Waimea receives a great share of cross-island traffic. Traffic is quite congested at the intersection of Lindsay Road and Mamalahoa Highway, which is the only route in and out of Waimea and stands at the heart of the town. Sugarcane and other industrial trucks pass through Waimea to get to Kawaihae Harbor, and cross-island traffic has increased as the visitor industry of West Hawaii has attracted labor from East Hawaii. Traffic should worsen from the construction and increased growth.

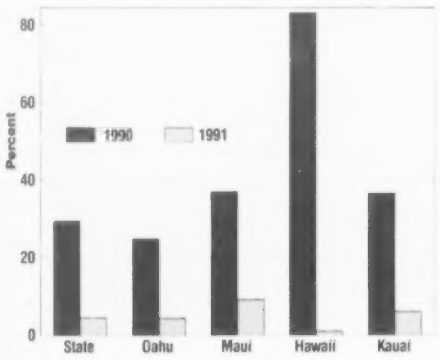
The state has had pending for over 20 years a bypass road to divert cars around the proposed town center area. But, 80 percent of the bypass road sits on Hawaiian Homes Land which cannot be converted to public use by the state through eminent domain. To help alleviate the intersection bottleneck, Parker Ranch is proposing an interim bypass road through the town.

Parker Ranch's proposed development is only one of many larger projects being planned for the Big Island. Yet this venture is probably the most ambitious one now underway for an already existing and older community. The goal is to preserve a lifestyle while accommodating growth.

If implemented, this development will serve as an impetus for many new Big Island jobs. A test of the strength of any economy is a relatively high level of employment. However, after the boom years of the late 1980s, probably the single doubt of policymakers and residents is the future prospects for job creation. The latest unemployment figures show that the Big Island had the highest unemployment rate in the state.

Concerns about near-term prospects for construction on the Big Island are also important. The construction cycle turned down in 1991. With an excess of hotel rooms and less incoming capital from Japan, the construction surge from 1985 to 1991—which added over 15,000 jobs statewide to the industry— is unlikely to return soon. While construction activity grew by 29 percent in 1990, growth slowed to 4.5 percent for 1991. As the chart shows, the Big Island experienced by far the greatest decline in construction activity growth.

Construction Activity Growth: 1990 vs 1991



Now is a favorable time throughout the state to foster developments that help relieve the stresses that have impacted Hawaii's residents during our recent high-growth years. From this perspective, Parker Ranch 2020 is desirable for the community of Waimea, and more broadly, for job creation on the Big Island.

Hawaii Population & Income

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Population			
State residents (thous., July 1, 1991)	1,134.8	.....	1.9
de facto (thous., July 1, 1990)	1,257.6	.....	1.0
Oahu residents (thous., July 1, 1990)	839.3	.....	0.8
de facto	913.1	.....	0.7
Maui residents (thous., July 1, 1990)	101.4	.....	5.3
de facto	139.3	.....	0.4
Hawaii residents (thous., July 1, 1990)	121.3	.....	4.3
de facto	136.3	.....	3.3
Kauai residents (thous., July 1, 1990)	51.6	.....	4.0
de facto	68.9	.....	1.6
Military personnel (thous., July 1991)	54.7	.....	−0.9
Dependents in Hawaii	63.3	.....	4.5
Foreign Immigration (no., yr. to Feb.)	696	.....	−0.3
Total Personal Income			
($ mil., 3rd Qtr. 1991)	24,214	3.3*	5.2
Employment Income	18,424	3.8*	5.4
Manufacturing	726	3.4*	2.8
Construction & Mining	1,754	8.9*	11.6
Wholesale	729	2.2*	4.0
Retail	2,104	7.1*	3.8
Finance, Ins., & Real Estate	1,396	4.4*	5.5
Trans., Comm., & Utilities	1,496	1.3*	0.9
Services	5,264	10.2*	7.3
Farm & Other	395	13.1*	8.8
Federal Civilian	1,142	10.4*	3.8
Federal Military	1,423	−17.9*	0.1
State & Local	1,996	−4.9*	5.8
Property Income	3,390	−4.2*	−2.2
Transfer Payments: net of personal contributions for social insurance	2,399	10.1*	16.5
Per Capita Personal Income ($, 1990)	20,356	.....	9.1

*Annual Rate

International Indicators

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Hawaii Real Trade-Weighted Exchange Rate Index (1980 = 100, January)	117.68	1.2	2.8
Japan			
Real GNP (yen bil., 2Q: 1991)	423,028	2.0*	5.0
Yen/$ exchange rate (January)	125.09	−2.4	−6.6
Current Balance ($ bil., December)	10.08	2.8**	10.1**
Discount rate (%, January)	4.5	0.0**	−1.5**
Long-term prime rate (%, Jan. 31, 1991)	6.6	−0.3**	−1.2**
Nikkei Stock Index (avg. January)	21,875	−1.9	−6.2
Real GNP/GDP, Other Hawaii Trade Partners (1985 Prices)			
Canada (GDP, bil. C$, 3Q: 1991)	550.4	0.9*	−0.8
Australia (GDP, bil. A$, 2Q: 1991)	264.4	−3.9*	−2.4
New Zealand (GDP, mil. NZ$, 2Q: 1991)	44,387	−14.6*	−5.1
Korea (GDP, bil. won, 2Q: 1991)	33,990	39.5*	9.4
Taiwan (GNP, bil. NT$, 3Q: 1991)	1,063.7	27.3*	14.2
Singapore (GDP, mil. SGD, 1990)	57,076	.....	8.3
Philippines (GNP, bil. pesos, 3Q: 1991)	170.8	−6.3*	−2.0
United Kingdom (GDP, bil. £, 2Q: 1991)	406.3	−1.8*	−3.6
Germany (GNP, bil. DM, 3Q: 1991)	2,200.8	−4.2*	1.7

*Annual Rate **Incremental change

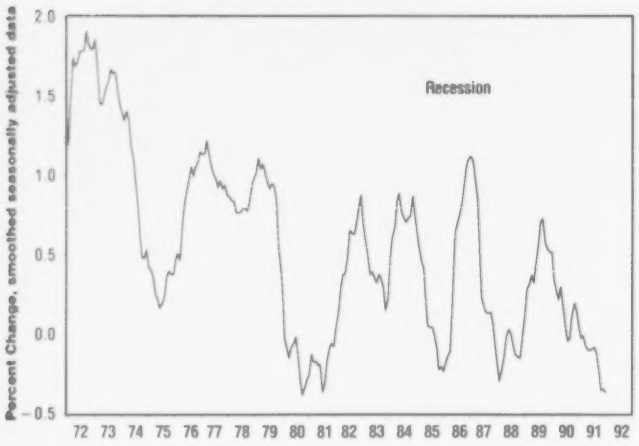
After declining for two years, U.S. productivity rose in 1991. This partly reflects restructuring and layoffs, but is a brighter side to recent job losses. Overall, continued productivity gains will make the U.S. economy better able to compete in the world marketplace and recover from recession.

U.S. Economic Indicators

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Gross Domestic Product			
($ bil., 4th Qtr.)	5,739.7r	2.2*	3.3
In 1987 dollars	4,868.0r	0.4*	0.3
Personal Income (January)	4,928.4p	−0.2*	3.5
Real Per Capita Disposable Income (1987 dollars, 4th Qtr.)	13,990r	0.0	−0.5
Productivity Index			
Nonfarm business sector (1982 = 100, 4th Qtr.)	108.9p	1.1*	0.9
Civilian Employment (mil., Feb.)	117.0	−0.1	0.1
Unemployment rate (%, Feb.)	7.3	0.2**	0.9**
Capacity Utilization (%, January)	78p	−0.8**	−2.0**
Consumer Confidence Index (1985 = 100, February)	46.3p	−7.8	−22.1
Price Indexes			
CPI-U (1982-84 = 100, February)	138.6	2.4*	2.8
PPI-Finished Goods (82 = 100, Feb.)	121.9	2.4*	2.4
Prime Interest Rate (%, February)	6.5	0.0**	−2.5**
Federal funds rate (%, February)	4.1	0.0**	−2.1**
3-Month Treasury bill (%, February)	3.8	0.0**	−2.1**
30-Year Treasury bond (%, February)	7.9	0.3**	−0.4**
Money Supply (M2, $ bil., seas. adj., February)	3,475.4	9.3*	3.4
Domestic Nonfinancial Debt ($ bil., December)	11,292.4r	0.3	4.6
Corporate Profits—After Tax ($ bil., 3rd Qtr.)	189.6r	3.8	−3.4
Common Stock (DJIA, February)	3,257.27	0.9	13.8
Current Balance ($ bil., 3rd Qtr.)	−10.5p	−13.5**	13.4**
Trade Balance ($ bil., 4th Qtr.)	−18.7p	2.2**	9.1**

r = revised p = preliminary *Annual rate **Incremental change

Westbound Average Daily Visitor Census



Changes in Hawaii's westbound daily visitor census, recently trending down, show mixed sensitivity to mainland recession--partially due to airfare changes and other factors. Yet its tendency to turn down well in advance of a recession's onset makes it a potential national leading indicator.

Hawaii Banking & Finance

Series/Unit/Period	Level	Percent Change: preceding period	Percent Change: year ago
Commercial Bank Deposits ($ bil., 12-month ending yr. to February)			
State Total Deposits	157.8	.....	3.9
Debits to demand deposits	252.6	.....	12.2
Oahu Total Deposits	131.6	.....	4.7
Debits to demand deposits	234.5	.....	13.6
Maui Total Deposits	10.4	.....	–2.2
Debits to demand deposits	7.5	.....	–9.8
Hawaii Total Deposits	10.7	.....	1.2
Debits to demand deposits	7.2	.....	–0.4
Kauai Total Deposits	5.1	.....	3.9
Debits to demand deposits	3.5	.....	2.6
Bank Loans Outstanding ($ mil., 4th Qtr.)			
State	10,119.0	3.5	9.1
Real Estate	5,169.5	3.0	15.6
Consumer	1,184.0	–1.6	–9.5
Commercial & Industrial	3,054.8	6.4	8.1
Other	662.2	9.6	13.9
Conventional Home Mortgage Rate			
Honolulu (%, 4th Qtr.: 1991)	7.29	–1.35**	–2.34**
State Tax Collections ($ mil., yr. to Feb.)	524.0	.....	–6.4

**Incremental change

Hawaii Employment & Jobs

Series/Unit/Period	Level	Percent Change: preceding period	Percent Change: year ago
Civilian Employment (thous., January)			
State Labor Force	565.4p	0.3	3.6
Employment	544.9p	–0.3	2.8
Unemployment rate (%)	3.6p	0.6**	0.8**
Oahu Labor Force	405.3p	0.2	2.7
Employment	393.4p	–0.3	2.3
Unemployment rate (%)	2.9p	0.4**	0.4**
Maui Labor Force	63.0p	0.6	8.6
Employment	60.0p	–0.4	6.7
Unemployment rate (%)	4.7p	0.8**	1.7**
Hawaii Labor Force	67.1p	0.8	5.3
Employment	63.2p	–0.6	3.4
Unemployment rate (%)	5.9p	1.4**	1.9**
Kauai Labor Force	30.2p	1.0	2.6
Employment	28.5p	–0.5	0.9
Unemployment rate (%)	5.4p	1.3**	1.5**
Job Count by Industry (thous., January)			
Total Jobs—State	589.5p	–1.9	1.0
Oahu	444.0p	–1.9	0.6
Maui County	57.4p	–2.0	4.6
Hawaii	59.7p	–1.9	1.4
Kauai	28.5p	–2.2	–1.6
Sugar (mill & field)	5.2p	–1.0	–5.5
Pineapple (cannery & field)	2.2p	–21.4	–24.1
Diversified Agriculture	7.8p	–9.8	–3.7
Diversified Manufacturing	16.4p	–0.6	–1.8
Durable goods	4.3p	0.0	1.2
Non-durable goods	12.1p	–0.8	–2.8
Apparel & textiles	1.9p	–2.6	–9.8
Contract Construction	32.8p	–1.4	0.0
Transportation	33.0p	–0.6	1.1
Communication	7.4p	–2.0	0.7
Utilities	3.2p	1.6	4.9
Retail Trade	113.7p	–2.6	0.4
Wholesale Trade	22.4p	–1.1	–1.1
Finance, Insurance, & Real Estate	38.0p	–0.4	1.9
Hotel Services—State	41.6p	–0.4	1.7
Oahu	20.1p	–1.0	0.3
Maui County	10.8p	0.9	16.8
Hawaii	6.3p	0.0	–10.6
Kauai	4.5p	–1.1	–4.3
Other Services	119.0p	0.0	1.8
Federal Government	34.4p	–1.3	5.9
Civilian Agencies	15.2p	–1.9	10.2
Defense Department	19.2p	–0.8	2.7
State Government	62.2p	–4.5	4.3
County Government	14.6p	–1.4	2.1
Non-Agriculture Self-Employed	36.1p	–5.3	–4.5

**Incremental change

Dr. Leroy O. Laney, Vice President and Chief Economist
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Hawaii Business Activity

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
State Gross Business Receipts			
($ mil., January)	3,983.4	.....	−3.8
Diversified Manufacturing	63.6	.....	37.6
Diversified Agriculture	45.4	.....	51.9
Retailing	1,395.3	.....	−3.9
Wholesaling	958.2	.....	−10.2
Services	916.2	.....	−0.9
Construction	335.9	.....	−17.2
Other	268.8	.....	25.1
Retail Car Sales—State			
(Number, yr. to February)	4,874	.....	−29.7
Oahu	3,493	.....	−33.5
Maui	551	.....	−15.7
Hawaii	549	.....	−26.2
Kauai	281	.....	−0.4
Honolulu CPI (1982-84=100, 2nd half 1991)			
Urban Wage Earners & Clerical Workers	150.1	3.2*	6.0
All Urban Consumers	149.1	3.1*	5.9
Tourism (Number, January)			
Overnight or Longer Visitors	533,070p	0.0	23.2
year to date	1,066,150p	.....	9.7
Westbound Visitor Count	327,750p	2.0	4.3
year to date	649,000p	.....	−2.0
Oahu	200,680p	−2.9	0.6
year to date	407,340p	.....	−4.7
Maui County	157,040p	19.3	14.8
year to date	288,690p	.....	5.5
Hawaii	78,090p	6.3	0.5
year to date	151,520p	.....	−4.6
Kauai	77,660p	15.6	5.3
year to date	144,860p	.....	−1.9
Average Daily Census	122,740p	1.0	10.4
Average Length of Stay (days)	10.9p	−7.6	5.8
Eastbound Visitor Count	205,320p	−3.1	73.4
year to date	417,150p	.....	34.7
Oahu	200,430p	−3.1	76.6
year to date	407,320p	.....	37.7
Maui County	34,890p	2.7	89.4
year to date	68,870p	.....	27.3
Hawaii	13,830p	−19.0	39.8
year to date	30,910p	.....	5.9
Kauai	13,620p	−14.3	52.2
year to date	29,520p	.....	8.4
Average Daily Census	39,010p	4.2	56.1
Average Length of Stay (days)	5.5p	6.4	−9.8
Hotel Occupancy Rate—State			
(%, February)	78.9	6.7**	11.5**
year to date	75.3	.....	5.7**
Oahu	89.5	4.7**	16.9**
year to date	86.7	.....	9.7**
Maui Island	66.6	13.3**	7.8**
year to date	59.7	.....	2.5**
Hawaii	61.9	5.9**	1.5**
year to date	58.9	.....	0.2**
Kauai	56.7	8.0**	−0.1**
year to date	52.1	.....	−0.2**

*p = preliminary *Annual rate **Incremental change*

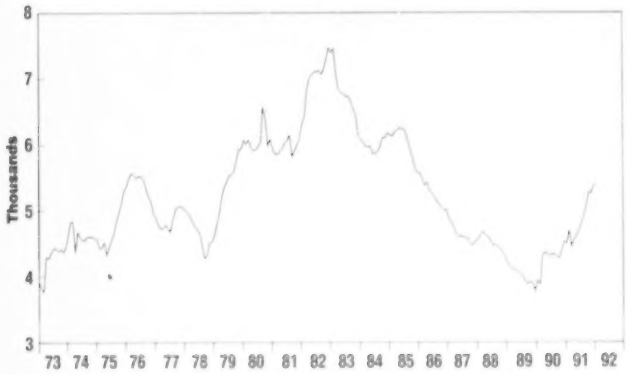
Hawaii Business Activity *(Cont.)*

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Defense Appropriations			
Total Funds ($ mil., 1991)	2,077.3[1]	.....	8.1
Military payroll	978.6[1]	.....	8.3
Civilian payroll	631.0[1]	.....	8.8
Local purchases	467.8[1]	.....	6.8
Agriculture (January)			
Sugar Production (tons)	5,570	.....	−40.3
Price per ton	427.80	.....	−2.3
Pineapple Production (thous. lbs.)	17,281	.....	−5.9
Honolulu Construction Cost Indexes (Jan.)			
Single Family (1982=100)	100.0	−7.0*	1.6
High Rise (1982=100)	100.0	−9.0*	0.0
Private Permits ($ thous., year to Feb.)			
State Residential	153,343	.....	−35.3
Nonresidential	183,669	.....	4.5
Oahu Residential	86,937	.....	−31.2
Nonresidential	39,201	.....	−70.9
Maui County Residential	19,040	.....	−23.3
Nonresidential	5,997	.....	−65.5
Hawaii Residential	36,762	.....	−48.6
Nonresidential	134,174	.....	2,163.8
Kauai Residential	10,606	.....	−24.6
Nonresidential	4,296	.....	−74.6
Public Contracts Awarded			
State ($ thous., year to February)	333,933	.....	52.7
Oahu	324,588	.....	60.4
Maui County	6,190	.....	−39.3
Hawaii	1,878	.....	23.3
Kauai	1,279	.....	−72.5
By Level of Government			
Federal	2,437	.....	−80.5
State	184,246	.....	12.2
County	147,250	.....	250.5
Real Estate Resales (January)			
State: Single Family (number)	215	.....	30.3
Average price	366,535	.....	9.0
Condominium (number)	251	.....	4.1
Average price	223,210	.....	9.2
Oahu: Single Family (number)	99	.....	13.8
Average price	482,924	.....	11.4
Condominium (number)	185	.....	8.2
Average price	223,053	.....	6.6
Maui County: Single Family (number)	39	.....	62.5
Average price	371,089	.....	18.2
Condominium (number)	45	.....	9.8
Average price	216,366	.....	13.7
Hawaii: Single Family (number)	59	.....	25.5
Average price	178,985	.....	−2.3
Condominium (number)	15	.....	−21.1
Average price	270,893	.....	39.9
Kauai: Single Family (number)	18	.....	157.1
Average price	331,272	.....	43.9
Condominium (number)	6	.....	−40.0
Average price	160,167	.....	−19.5

*p = preliminary *Annual rate **Incremental change*
[1] = Does not include Air Force and the Coast Guard

Intrastate Unemployment Insurance Claims

12-Month Moving Weekly Average



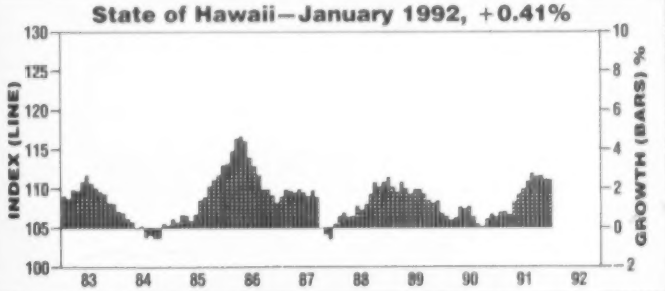
Another gauge of Hawaii's labor market is initial unemployment claims, which have been rising since early 1990. This measure further substantiates the slowdown in the local economy that has been in the works for the last two years.

Hawaii Public Assistance

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Unemployment Insurance (February)			
Insured Unemployment (wkly. avg.)	11,680	7.4	51.8
Intrastate Initial Claims	5,148	-21.8	-14.5
Interstate Initial Claims	396	-12.6	36.1
Benefits ($ thous., year to date)	20,416	.....	75.8
Income Maintenance (February)			
Recipients (no. persons)	59,781	1.6	11.0
Payments ($ thous., year to date)	25,997	.....	15.0
Medical Assistance (February)			
Recipients (no. patients)	51,970	-6.8	3.0
Payments ($ thous., year to date)	49,316	.....	27.8
Food Stamps (January)			
Recipients (no. persons)	89,457	-0.3	10.9
Payments ($ thous., year to date)	9,480	.....	16.0
Services (4th qtr.)			
Recipients (no. cases)	6,304	-1.7	-3.6
Payments ($ thous., year to date)	18,690	.....	-30.8

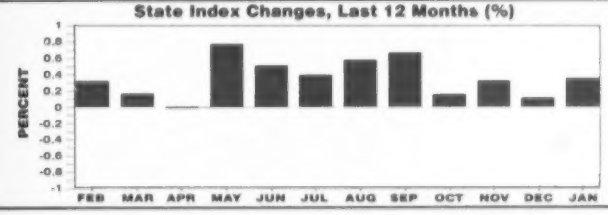
First Hawaiian Bank Index of Leading Economic Indicators

State of Hawaii—January 1992, +0.41%



The leading index increased by 0.4 percent in January. This was the ninth consecutive monthly gain. Yet, as with last month, strength lies in the Honolulu economy, with the neighbor island economies showing two consecutive decreases. Hawaii stocks led the rise, reflecting national stock trends. Construction contracts also rose, primarily due to public projects. An increase in the trade-weighted exchange rate index is good news for Hawaii's eastbound visitor market. Continuing bank credit demand also contributed strength. However, average workweek hours dipped with slack in the labor market, and the visitor component was also weak due to the effects of the national recession on westbound tourism.

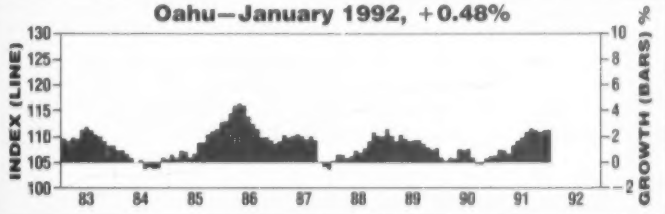
State Index Changes, Last 12 Months (%)



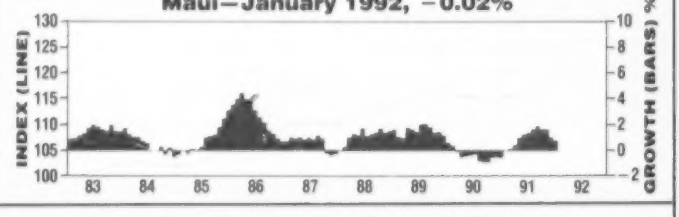
January State Index Component Changes

Hawaii Stock Index	+1.33%	Monetary Policy	+0.60%
Construction Contracts	+1.30%	Labor Market Conditions	-0.04%
Trade-weighted Exchange Rate	+1.23%	Expected Purchasing Power	-0.16%
Credit Demand	+0.91%	Visitor Count	-0.95%
National Leading Index	+0.90%	Average Workweek Hour	-2.75%

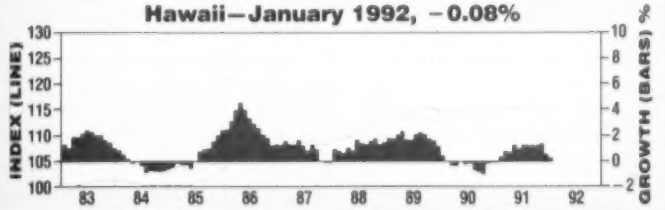
Oahu—January 1992, +0.48%



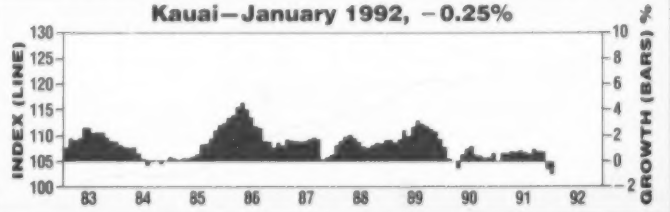
Maui—January 1992, -0.02%



Hawaii—January 1992, -0.08%



Kauai—January 1992, -0.25%



ECONOMIC INDICATORS

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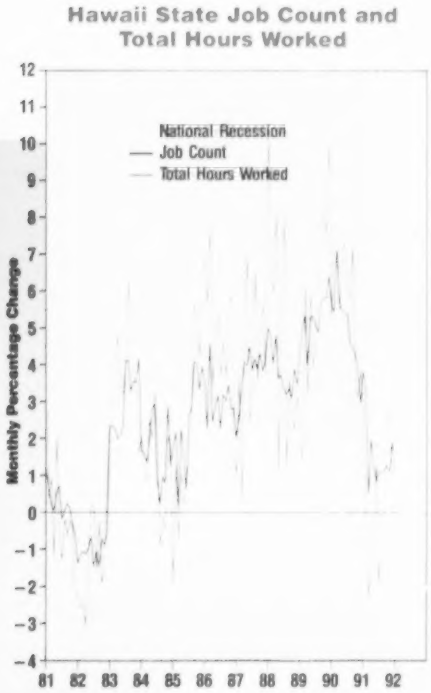
Current Business Trends: Total Hours Worked vs. The Job Count



Monthly labor market figures are often reliable real indicators at the state level, useful in measuring strength of the economy and defining onset of recession. The most cited number is the unemployment rate. Hawaii's unemployment rate remains well below the nation's, but it has been on an uptrend for several months. Yet the unemployment rate can be misleading because of multiple jobholding in our service-oriented economy. Loss of one job for someone holding down two or more jobs does not make one unemployed. So changes in job count —actual net jobs created or lost—is a more sensitive measure. We have used job count as a coincident indicator, as on this issue's front cover.

Yet the job count itself can be insulated by changes in hours worked. In slack times, firms can keep valuable people but save money by reducing their work week. There are indications that this has happened recently.

The chart compares monthly changes in jobs to an estimated total hours worked in the state. Both jobs and total hours fell in the last recession of 1981-82. But changes in hours turned negative once again in 1984-85, a weak period but one that did not bring state recession, while changes in jobs remained positive. Recently, that same situation has existed; lower but still positive job growth has corresponded to sometimes negative growth in hours worked.

The hours worked measure might convince one we are closer to state recession than if only the job count series is used.

There is of course a big difference in actual job loss and working fewer hours a week, but the hours worked series is a rough gauge of wages paid and therefore money available for spending in our economy. The hours worked measure might convince one we are closer to state recession than if only the job count series is used.

B3500-1

ECONOMIC INDICATORS

Research Department

First Hawaiian Bank

May/June 1992

Hawaii's European Ties

Hawaii is quite aware of its Pacific Rim connections—both culturally and economically. The 21st century has been heralded by some as the "Pacific Century." Certainly the Pacific Rim is home to some of the world's fastest growing economies, which are now major sources for our tourism and foreign investment. These countries have the potential to play an even greater role.

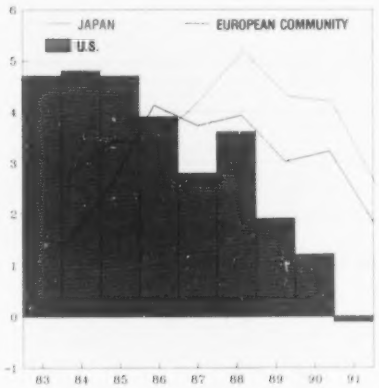
We have much less awareness now of major markets in Europe. Yet it is in Europe where the most dramatic political and economic developments of the last several years have occurred. Fifteen years ago, few would have thought that Europe would be so close to achieving economic unification now, or that currency union would be a potential reality. Almost no one then would have predicted the rapid opening of Eastern Europe or the dissolution of the Soviet Union.

These striking events in Europe have aroused business interests the world over, even small tourism economies in the mid-Pacific. The Hawaii Visitors Bureau has begun to market Hawaii more in Europe. With an established presence in Germany, the United Kingdom, and now Brussels, Hawaii eventually stands to gain much from an economically transformed Europe.

Europe already makes a larger economic contribution here than many realize. (See Current Business Trends, this issue.) In 1991, the United Kingdom and Germany ranked fourth and fifth (after Japan, Canada and Australia) in total visitor days spent in the state.

More European visitors here will undoubtedly bring changes to Hawaii's tourism marketplace. Compared to the major Japanese foreign market, Europeans—as more seasoned foreign travelers—tend to stay longer, be more adventurous, and more independent. They gravitate more to secluded neighbor island destinations, and this may vary somewhat now with nationality. Some studies show Germans and Italians drawn more to the Big Island, with the French, Swiss, and Swedes attracted more to Maui. Only the British show a greater inclination to stay on the more urban Oahu. Europeans are not now among our biggest spenders, however, and they are not likely to be attracted to the same prestige retail items—many of them European in origin—that entice our higher spending Japanese visitors.

Real Consumer Spending



> Geographic diversification can be as effective in spreading risk as diversifying across industry sectors.

The biggest economic incentive in expanding our tourism base to Europe lies in diversification. Hawaii is often characterized as a one industry economy, but tourism is and will remain our clear comparative advantage in the world. Geographic diversification can be as effective in spreading risk as diversifying across industry sectors. This is even more important when we consider our intractable barriers to new industries—such as high labor, land, and operating costs that discourage unconventional businesses from establishing a firm foothold here.

Potential diversification effects of expanding our tourism markets to Europe are illustrated by the chart. Real consumer spending changes in the European Community and Japan are correlated more closely with each other than with the same changes in the U.S., but none of the three are so closely linked that diversification does not pay. In fact, statistical analysis over the period shown reveals that consumer spending in Europe is less correlated than Japan with the U.S. market. And while consumer spending growth in Europe over the period is generally less than in Japan, that may change gradually with economic consolidation.

If the European Economic Community successfully integrates its 337 million people into one economy, it will be the largest market in the world. At the Maastricht Summit in December 1991, the European Community's 12 government leaders agreed to monetary union and a common currency for Europe by the end of the century. Many obstacles to this agreement must be overcome, but when and if a common currency materializes, exchange rate swings will span the entire market.

Europe is not now a major tourism market for Hawaii. But with a mature U.S. mainland market, simply counting on the still robust Japanese market brings less than optimal diversification. With successful marketing and a few breakthroughs in airline routing, Europe could become a significant market for the state's major industry sometime in the future.

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The Nikkei's Descent and Hawaii; The Basel Connection

A renewed decline in the Japanese stock market recently has garnered much attention. In April 1992, the Nikkei average closed 57% below its end-1989 historical high. That kind of decline in the U.S. equity market, and the effects it would have on the U.S. economy, are hard to contemplate. One of the most frequent questions to the Research Department in recent weeks has been: Will the Japanese stock market weakness affect Hawaii? If so, how? Since you asked, these are the linkages and their potential impact.

Japanese tourism is still a mainstay of our local economy. Some potential Japanese tourists may own stock directly or may be indirectly affected through pension funds or business developments, but these effects are not nearly as widespread as they would be in the U.S. because corporate shareholdings are proportionately much larger in Japan. Japanese visitors and their spending have shown a hardy resilience to Japan's economic cycle and financial events there in the last several years.

Things like changes in the mix of Japanese visitors and their tastes, competition from other destinations and their marketing efforts, and demographic trends may affect our Japanese tourism gradually over time.

Japanese visitors have shown a hardy resilience to Japan's economic cycle and financial events there in the last several years.

But Japan is still a comparatively new market with much potential. Relatively few Japanese have traveled abroad, and Hawaii has a unique attraction for them. Japan will likely provide higher spending visitors in significant and increasing numbers for some years to come despite major adjustments in the Japanese stock market or recession there.

Investment, of course, is the other major aspect of our Japanese economic relationship. The bursting of the Japanese speculative bubble has already been noticed here in fewer buyers for residential properties and some discontinued or postponed Japanese financing for visible development projects.

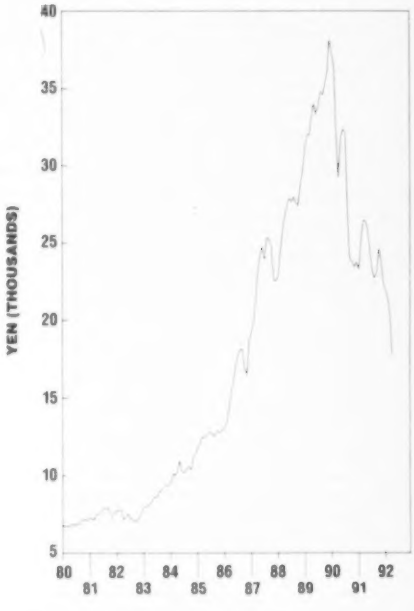
The Basel Agreement. It is through Japanese bank financing here that any major impact of their stock market adjustment is likely to be felt. In this regard, one operative linkage is via the international bank capital adequacy requirements imposed by the "Basel Accords" of a few years ago. Some people begin to envision an all too arcane world of international finance at the mention of this connection, and are intimidated enough not to pursue the subject further. But it works like this.

Bankers the world over have seen the Basel Accords coming for several years. In December 1987, the Basel Committee on Banking Regulations and Supervisory Practices—sometimes called the "Cooke Committee" after Peter Cooke, Bank of England associate director and committee chairman—reached an agreement that would have far-reaching effects. Composed of representatives of the central banks of 12 major countries, the Committee was sponsored by the Bank for International Settlements (BIS) in Basel, Switzerland. (The BIS, founded after World War I to help facilitate German reparations to the allies, has over the years taken on the status of a central bank to central bankers.)

The agreement involved common international "risk-based capital adequacy" guidelines. The goal was to narrow differences in bank capital requirements across countries, with rules to take effect several years hence. That deadline is now upon us, with Japan's banks required to be in conformance by April 1, 1993, the beginning of their next fiscal year.

Calculating Capital Adequacy. The basic requirement of the agreement is that banks maintain a capital to assets ratio of at least 8%, but the key is in defining capital (the numerator) and assets (the denominator) in that

Nikkei 225 Stock Average



ratio. Book rather than market values typically are used in the computation of the ratio, though as explained below there are exceptions.

Bank assets in the denominator are weighted, somewhat arbitrarily, by perceived risk; their dollar amount is not simply summed up directly. Only as examples, cash has a weight of zero applied to it, a 20% weight applies to interbank deposits, and a 50% weight applies to first home mortgages. After applying these weights to certain identified assets, all other loans and securities on a bank's balance sheet carry the maximum 100% weight. Off-balance sheet items are converted to an on-balance sheet equivalent and treated similarly.

Bank capital in the numerator is divided into tier 1 (or core) capital, which must equal at least 4% of risk-adjusted assets, and tier 2 (or supplemental) capital, which cannot exceed tier 1. Thus the 8% total ratio. ***Tier 1*** includes common stock (at par value), retained earnings, and perpetual preferred stock (up to 25% of the tier 1 total). Goodwill, the excess of an acquisition's purchase price over its

market value, is deducted from tier 1. ***Tier 2*** includes general loan loss reserves (up to 1.25% of the total ratio), certain undisclosed reserves (common in some countries but not allowed by U.S. accounting standards), subordinated debt (up to 50% of the tier 2 total) and other hybrid debt capital, and 45% of "revaluation reserves." It is these revaluation reserves that are critical for assessment of the lending capacity of Japanese banks in light of recent stock market declines.

Revaluation Reserves and the Stock Market. Revaluation reserves pertain to assets for which the current market value exceeds their historical costs. These potentially include banks' common stock assets or even fixed assets such as bank premises. Though the original purpose of the capital standards was to "level the international playing field," a good bit of national discretion still exists in the revaluation reserves category.

Some countries (e.g. New Zealand and Hong Kong) allow all such reserves to be included in capital, some (e.g. the U.S. and Canada) disallow all such reserves, some (e.g. Australia) allow revaluation changes for fixed assets but not securities, and some (e.g. Japan) allow revaluation changes for securities but not fixed assets. The decision to include any such asset categories involves a symmetrical two-way risk; their values can fall as well as rise, and beyond some point value declines can even subtract from total capital. This was less obvious when decisions on included assets were made several years ago than now.

Immediately after the Basel agreement, there was considerable speculation on whose banks would be helped or hurt relative to others. The treatment of goodwill was thought to discourage U.S. and European merger activity. But Japanese banks, on reflection, generally were judged to fare better. Though Japanese banks' tier 1 capital was lower than that for other countries, they more than made this up with revaluation reserves on equity holdings in tier 2. Japan's banks have much larger equity holdings in their portfolios because of cross-holdings among companies and banks, a product of their ***keiretsu*** business groupings.

Able to count on paper gains in their equities for as much as half of their capital requirements, Japanese banks were comfortable as the stock market boomed in the late 1980s. Recent declines are enough to concentrate the mind of any banker, however, as several major Tokyo institutions skirt closer to falling below 8% on the eve of compliance. With contracting capital in the numerator, and with raising new equity in the falling market all the more costly, banks can only resort to contracting the denominator by limiting lending or even calling loans.

Financial analysts have recently calculated critical levels of the Nikkei average at which each major Japanese financial institution would fail to satisfy their 8% BIS ratios. Weighting these critical levels by the relative shares that each of these banks' international loan portfolio bears to the total Japanese bank foreign loan exposure globally yields a Nikkei level in the 14,000 range. A similar calculation for Hawaii using weights derived from the estimated relative exposures of the same banks here falls in the 13,000 range.

Because the equity shares held by banks may have been bought years ago, major declines are necessary before paper gains turn to losses. As the chart shows, the Nikkei average now stands about where it did in 1986, and banks have held some of their stock much longer. In this light, the plummeting stock market may seem less threatening. Yet recent calculations have put several banks close to the danger zone.

No international agency exists to enforce the Basel mandates. But when rules go into effect next year, any bank that does not meet them will be coerced by international rating agencies, higher costs of borrowing funds in world markets, and even possible regulatory restrictions in the foreign countries where they have a presence.

Effects on Hawaii. Financial analysts have recently calculated critical levels of the Nikkei average at which each major Japanese financial institution (including the city—or commercial—banks, the long term credit banks, and the trust banks) would fail to satisfy their 8% BIS ratios. Weighting these critical levels by the relative shares that each of these banks' international loan portfolio bears to the total Japanese bank foreign loan exposure globally yields a Nikkei level in the 14,000 range. This level might be interpreted as an overall threshold at which external borrowers from Japanese institutions worldwide would be more at risk. (Total international loans by these institutions have been shrinking—both absolutely and relative to the domestic loan portfolio—for the last two years anyway, as the Japanese banks retrench their foreign exposure.)

A similar calculation can be performed for the state of Hawaii, using weights derived from the estimated relative exposures of the same banks here. This falls in the 13,000 range, just below the world average above. One might then conclude that the Nikkei's tremors and the impending Basel ratios, on balance, threaten Hawaii's credits at least somewhat less than the rest of the world's credits. Yet Japanese lending is still more concentrated in Hawaii than the world at large, and curtailment of financing here can also result from banks simply being hit by loan losses in the wake of Japan's financial and real estate contraction. These separate, if related, aspects will also determine the magnitude of the effects of the Nikkei's behavior on Hawaii's economy.

Hawaii Population & Income

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Population			
State residents (thous., July 1, 1991)	1,134.8	.....	1.9
de facto (thous., July 1, 1990)	1,257.6	.....	1.0
Oahu residents (thous., July 1, 1990)	839.3	.....	0.8
de facto	913.1	.....	0.7
Maui residents (thous., July 1, 1990)	101.4	.....	5.3
de facto	139.3	.....	0.4
Hawaii residents (thous., July 1, 1990)	121.3	.....	4.3
de facto	136.3	.....	3.3
Kauai residents (thous., July 1, 1990)	51.6	.....	4:0
de facto	68.9	.....	1.6
Military personnel (thous., July 1991)	54.7	.....	–0.9
Dependents in Hawaii	63.3	.....	4.5
Foreign Immigration (no., yr. to Feb.)	696	.....	–0.3
Total Personal Income ($ mil., 4Q: 1991)	24,614	5.2*	4.7
Employment Income	18,690	3.8*	5.1
Manufacturing	748	7.9*	5.8
Construction & Mining	1,664	–5.6*	2.8
Wholesale	736	–1.1*	4.0
Retail	2,097	1.3*	1.7
Finance, Ins., & Real Estate	1,443	7.8*	6.9
Trans., Comm., & Utilities	1,562	1.8*	4.3
Services	5,331	4.5*	6.4
Farm & Other	366	–8.3*	4.0
Federal Civilian	1,161	–2.4*	5.8
Federal Military	1,434	3.4*	–1.2
State & Local	2,148	18.4*	11.1
Property Income	3,377	–1.6*	–3.8
Transfer Payments: net of personal contributions for social insurance	2,547	27.7*	15.3
Per Capita Personal Income ($, 1990)	20,356	.....	9.1

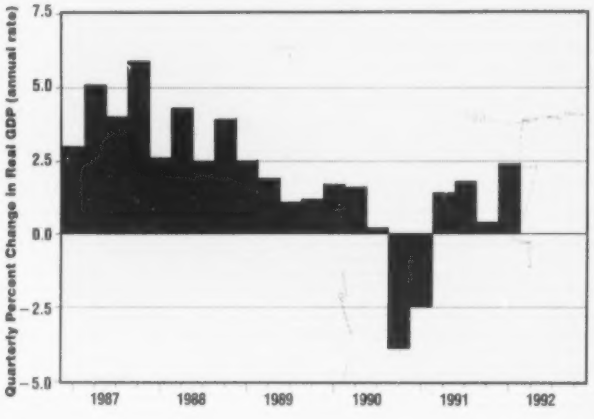
*Annual rate

International Indicators

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Hawaii Real Trade-Weighted Exchange Rate Index (1980=100, April)	113.49	–0.4	0.3
Japan			
Real GNP (yen bil., 4Q: 1991)	462,678	6.1*	5.3
Yen/$ exchange rate (March)	132.7	4.1	–3.3
Current Balance ($ bil., January)	3.10	–7.0**	–0.7**
Discount rate (%, March)	4.5	0.0**	–1.5**
Long-term prime rate (%, March)	6.0	0.0**	–1.7**
Nikkei Stock Index (avg. April)	17,764	–12.4	–32.9
Real GNP/GDP, Other Hawaii Trade Tourism Partners (1985 Prices)			
Canada (GDP, bil. C$, 4Q: 1991)	547.0	–0.8*	–0.2
Australia (GDP, bil. A$, 3Q: 1991)	262.2	–1.1*	–1.9
New Zealand (GDP, mil. NZ$, 3Q: 1991)	44,692	5.6*	–1.9
Korea (GDP, bil. won, 3Q: 1991)	35,573	20.0*	7.9
Taiwan (GNP, bil. NT$, 4Q: 1991)	1,075.9	4.7*	7.5
Singapore (GDP, mil. SGD, 1990)	57,076	.....	8.3
Philippines (GNP, bil. pesos, 1991)	716.5	.....	0.0
United Kingdom (GDP, bil. pounds, 4Q: 1991)	407.66	–0.5*	–1.1
Germany (GNP, bil. DM, 4Q: 1991)	2,197.1	–1.8*	0.9

*Annual Rate **Incremental change

Recovery Now A Year Old, But Very Weak



Contrary to much popular opinion, the recent U.S. recession ended a year ago. The rebound has been very weak, however, as was growth going into the recession. Typically, the U.S. has had higher growth both before and after recession than the 1990-91 episode.

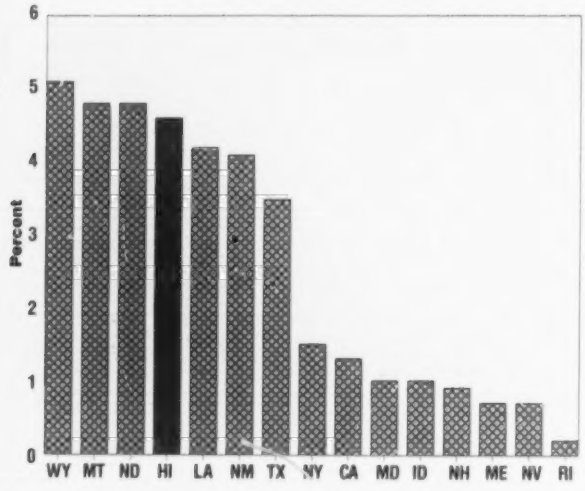
U.S. Economic Indicators

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Gross Domestic Product ($ bil., 1Q: 1992)	5,817.5r	5.5*	4.1
In 1987 dollars	4,896.9r	2.4	1.5
Personal Income (March)	4,990.5p	2.2*	4.4
Real Per Capita Disposable Income (1987 dollars, 1Q: 1992)	14,049p	0.5	0.6
Productivity Index Nonfarm business sector (1982=100, 4Q: 91)	109.1r	1.9*	1.1
Civilian Employment (mil., April)	117.7	0.3	0.2
Unemployment rate (%, April)	7.2	–0.1**	0.6**
Capacity Utilization (%, March)	78.1p	0.1**	–0.3**
Consumer Confidence Index (1985=100, April)	64.8p	14.7	–18.4
Price Indexes			
CPI-U (1982-84=100, April)	139.5	2.4*	3.2
PPI-Finished Goods (82=100, April)	122.2	2.4*	0.7
Prime Interest Rate (%, April)	6.5p	0.0**	–2.5**
Federal funds rate (%, April)	3.7	–0.3**	–2.2**
3-Month Treasury bill (%, April)	3.8p	–0.2**	–1.9**
30-Year Treasury bond (%, April)	8.0	0.0**	–0.3**
Money Supply (M2, $ bil., seas. adj., April)	3,467.9	–1.9*	2.5
Domestic Nonfinancial Debt ($ bil., February)	11,273.9	0.3	4.1
Corporate Profits—After Tax ($ bil., 4Q: 1991)	189.7r	0.1	–4.7
Common Stock (DJIA, April)	3,294.08	1.4	12.6
Current Balance ($ bil., 4Q: 1991)	–10.3p	1.4**	13.1**
Trade Balance ($ bil., 4Q: 1991)	–18.7p	2.2**	9.1**

r=revised p=preliminary *Annual change **Incremental change

Real Per Capita Personal Income Growth

Selected States—1991



Despite the slowing of state economic activity last year, real per capita personal income growth in 1991 was fourth highest in the nation. Hawaii lagged only states with much smaller resident populations.

Hawaii Banking & Finance

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Commercial Bank Deposits ($ bil., 12-month ending April)			
State Total Deposits	157.1	.....	2.2
Debits to demand deposits	267.8	.....	19.0
Oahu Total Deposits	130.8	.....	2.7
Debits to demand deposits	249.8	.....	21.2
Maui Total Deposits	10.3	.....	-2.8
Debits to demand deposits	7.4	.....	-10.5
Hawaii Total Deposits	10.8	.....	0.9
Debits to demand deposits	7.2	.....	-1.1
Kauai Total Deposits	5.1	.....	3.7
Debits to demand deposits	3.4	.....	2.4
Bank Loans Outstanding ($ mil., 4th Qtr.)			
State	10,119.0	3.5	9.1
Real Estate	5,169.5	3.0	15.6
Consumer	1,184.0	-1.6	-9.5
Commercial & Industrial	3,054.8	6.4	8.1
Other	662.2	9.6	13.9
Conventional Home Mortgage Rate			
Honolulu (%, 1st Qtr.: 1992)	8.46	1.17**	-0.5**
State Tax Collections ($ mil., yr. to April)	944.2	.....	0.1

***Incremental change*

Hawaii Employment & Jobs

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Civilian Employment (thous., April)			
State Labor Force	560.5p	-0.7	1.6
Employment	540.9p	-0.7	0.4
Unemployment rate (%)	3.5p	0.0**	1.2**
Oahu Labor Force	401.5p	-0.9	0.5
Employment	390.6p	-0.8	-0.3
Unemployment rate (%)	2.7p	-0.1**	0.7**
Maui Labor Force	62.4p	-0.4	6.5
Employment	59.6p	-0.4	4.5
Unemployment rate (%)	4.5p	0.0**	1.9**
Hawaii Labor Force	66.8p	0.1	4.6
Employment	62.5p	-0.6	1.6
Unemployment rate (%)	6.4p	0.6**	2.8**
Kauai Labor Force	29.9p	-0.7	-0.3
Employment	28.3p	-0.7	-2.2
Unemployment rate (%)	5.4p	0.1**	2.0**
Job Count by Industry (thous., April)			
Total Jobs—State	594.7p	-0.5	1.1
Oahu	447.5p	-0.6	0.7
Maui County	58.2p	-0.2	3.9
Hawaii	60.2p	-0.2	1.9
Kauai	28.8p	-0.7	0.5
Sugar (mill & field)	5.2p	1.0	-3.7
Pineapple (cannery & field)	2.7p	-1.9	-8.6
Diversified Agriculture	9.3p	1.6	16.3
Diversified Manufacturing	16.6p	-0.9	-0.3
Durable goods	4.5p	0.0	0.0
Non-durable goods	12.1p	-0.8	-0.4
Apparel & textiles	1.9p	0.0	-2.6
Contract Construction	32.1p	-1.4	-3.2
Transportation	32.9p	0.0	2.3
Communication	7.4p	-0.7	-2.6
Utilities	3.2p	0.0	4.9
Retail Trade	112.9p	-0.7	0.9
Wholesale Trade	22.5p	0.0	-0.2
Finance, Insurance, & Real Estate	37.9p	-0.4	1.7
Hotel Services—State	41.1p	0.1	3.3
Oahu	20.0p	0.3	1.8
Maui County	10.5p	0.0	17.4
Hawaii	6.1p	-0.8	-9.0
Kauai	4.5p	1.1	0.0
Other Services	119.2p	-0.6	2.2
Federal Government	33.6p	-0.1	0.6
Civilian Agencies	14.7p	-0.7	-0.3
Defense Department	18.9p	0.3	1.3
State Government	66.3p	-0.3	5.0
County Government	14.8p	0.0	2.8
Non-Agriculture Self-Employed	37.5p	-2.6	-7.7

*p=preliminary **Incremental change*

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Hawaii Business Activity

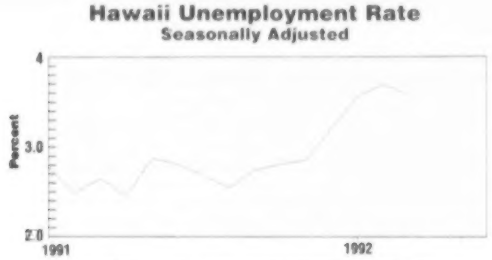
Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
State Gross Business Receipts			
($ mil., year to March)	10,913.9	.....	0.6
Diversified Manufacturing	173.2	.....	9.7
Diversified Agriculture	103.1	.....	23.8
Retailing	3,612.6	.....	2.7
Wholesaling	2,604.7	.....	-8.2
Services	2,685.7	.....	5.1
Construction	1,031.7	.....	-5.3
Other	703.0	.....	15.3
Retail Car Sales—State			
(Number, year to March)	8,585	.....	-15.2
Oahu	6,543	.....	-14.5
Maui	834	.....	-15.2
Hawaii	800	.....	-26.7
Kauai	408	.....	2.3
Honolulu CPI (1982-84 = 100, 2nd half 1991)			
Urban Wage Earners &			
Clerical Workers	150.1	3.2*	6.0
All Urban Consumers	149.1	3.1*	5.9
Tourism (Number, April)			
Overnight or Longer Visitors	513,600p	-6.8	-5.6
year to date	2,130,590p	.....	3.7
Westbound Visitor Counter	338,110p	-3.5	-12.4
year to date	1,337,500p	.....	-7.9
Oahu	202,470p	-11.4	-14.6
year to date	838,320p	.....	-9.2
Maui County	154,880p	-15.6	-6.9
year to date	627,140p	.....	1.9
Hawaii	73,770p	-30.0	-16.8
year to date	330,630p	.....	-2.3
Kauai	77,560p	-23.3	-20.7
year to date	323,480p	.....	-4.6
Average Daily Census	109,660p	-13.1	-7.1
Average Length of Stay (days)	9.7p	-6.7	5.4
Eastbound Visitor Count	175,490p	-12.5	10.9
year to date	793,090p	.....	32.0
Oahu	168,680p	-13.6	15.1
year to date	771,230p	.....	36.7
Maui County	33,610p	4.6	16.3
year to date	134,610p	.....	24.0
Hawaii	14,720p	9.9	-4.6
year to date	59,030p	.....	2.0
Kauai	16,860p	8.8	28.3
year to date	61,870p	.....	23.2
Average Daily Census	32,990p	-8.2	16.0
Average Length of Stay (days)	5.6p	0.0	3.7
Hotel Occupancy Rate—State			
(%, April)	67.7	-2.3**	-1.8**
year to date	71.8	.....	3.6**
Oahu	74.7	-3.3**	2.6**
year to date	81.4	.....	8.0**
Maui Island	59.7	-0.6**	-9.3**
year to date	59.9	.....	-2.2**
Hawaii	55.5	-0.0**	-8.5**
year to date	57.2	.....	-2.2**
Kauai	55.3	-0.5**	-3.5**
year to date	52.7	.....	-1.5**

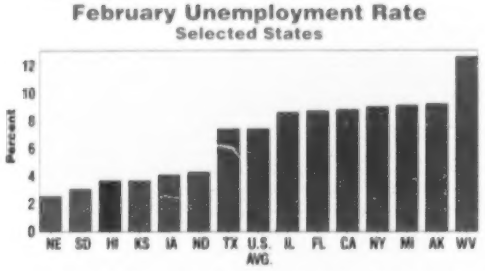
*p=preliminary *Annual rate **Incremental change*

Hawaii Business Activity *(Cont.)*

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Defense Appropriations			
Total Funds ($ mil., 1st Qtr: 1992)	535.41[1]	.....	5.4
Military payroll	264.8[1]	.....	16.0
Civilian payroll	159.4[1]	.....	-4.8
Local purchases	113.1[1]	.....	0.7
Agriculture (year to April)			
Sugar Production (tons)	140,438	.....	9.7
Price per ton	428.35	.....	-0.4
Pineapple Production (thous. lbs.)	82,150	.....	3.7
Honolulu Construction Cost Indexes (Apr.)			
Single Family (1992 = 100)	101.0	.....	3.7
High Rise (1992 = 100)	96.8	.....	-1.8
Private Permits ($ thous., yr. to March)			
State Residential	254,728	.....	-55.8
Nonresidential	251,016	.....	1.8
Oahu Residential	156,972	.....	-59.2
Nonresidential	86,607	.....	-55.1
Maui County Residential	34,896	.....	-1.5
Nonresidential	9,882	.....	-51.6
Hawaii Residential	48,040	.....	-64.4
Nonresidential	141,884	.....	1,168.9
Kauai Residential	14,820	.....	-30.0
Nonresidential	12,643	.....	-42.8
Public Contracts Awarded			
State ($ thous., year to April)	444,240	.....	48.8
Oahu	396,244	.....	52.8
Maui County	9,469	.....	-26.4
Hawaii	8,903	.....	70.5
Kauai	29,625	.....	40.4
By Level of Government			
Federal	6,327	.....	-88.8
State	266,422	.....	48.1
County	171,491	.....	174.8
Real Estate Resales (April)			
State: Single Family (number)	240	.....	9.6
Average price	347,855	.....	-12.6
Condominium (number)	277	.....	-18.5
Average price	206,856	.....	-2.3
Oahu: Single Family (number)	144	.....	14.3
Average price	399,361	.....	-23.4
Condominium (number)	218	.....	-16.5
Average price	207,764	.....	-3.5
Maui County: Single Family (number)	28	.....	-12.5
Average price	429,491	.....	34.4
Condominium (number)	34	.....	-32.0
Average price	202,404	.....	8.6
Hawaii: Single Family (number)	58	.....	9.4
Average price	195,672	.....	11.1
Condominium (number)	19	.....	11.8
Average price	199,179	.....	-13.5
Kauai: Single Family (number)	10	.....	25.0
Average price	260,250	.....	6.5
Condominium (number)	6	.....	-50.0
Average price	223,417	.....	3.6

**Incremental change [1]Does not include Air Force and the Coast Guard*



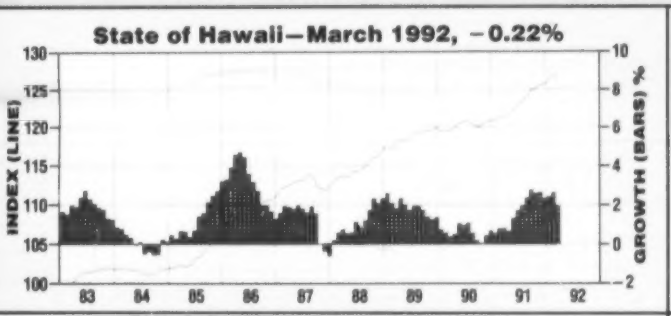


Although Hawaii's unemployment rate has been rising for the past several months, in February the state still had the third lowest seasonally adjusted jobless rate in the country—almost four percentage points lower than the national average.

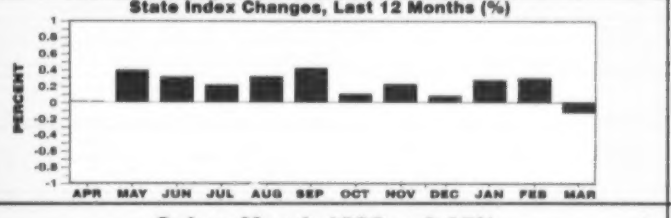
Hawaii Public Assistance

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Unemployment Insurance (March)			
Insured Unemployment (wkly. avg.)	11,277	-3.5	38.0
Intrastate Initial Claims	6,103	18.6	-5.3
Interstate Initial Claims	346	-12.6	24.5
Benefits ($ thous., year to date)	33,022	.....	80.8
Income Maintenance (March)			
Recipients (no. persons)	60,010	0.4	9.7
Payments ($ thous., year to date)	39,185	.....	14.7
Medical Assistance (March)			
Recipients (no. patients)	58,266	12.1	3.2
Payments ($ thous., year to date)	79,259	.....	22.2
Food Stamps (February)			
Recipients (no. persons)	90,467	1.1	10.1
Payments ($ thous., year to date)	19,090	.....	16.3
Services (1Q: 1992)			
Recipients (no. cases)	5,898	-6.4	-8.9
Payments ($ thous., year to date)	5,582	.....	35.0

First Hawaiian Bank Index of Leading Economic Indicators

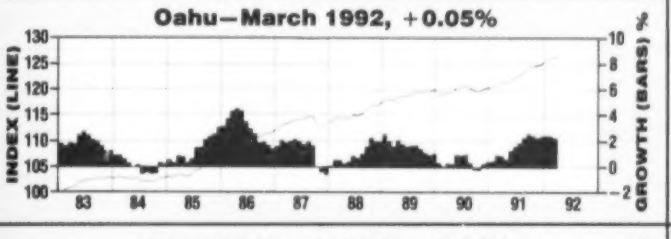


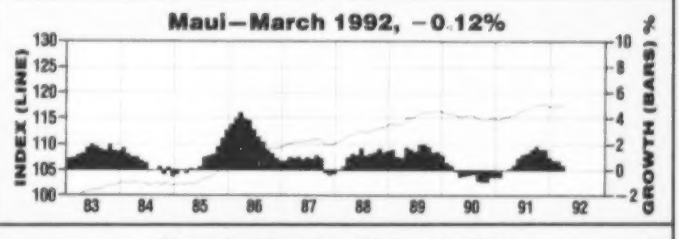
The leading index registered its first decline in 14 months by falling in March to 126.5. This 0.2% drop resulted from decreases in four of the ten index components. For the second month in a row, the exchange rate index measured the largest decrease, followed by construction. The Hawaii stock and visitor count indices also contributed to the decline. On the other hand, expected purchasing power, monetary policy, the national leading index, labor market conditions and the hourly workweek showed small gains. Bank credit demand continued its strong growth, relative to the other components, but at a more moderate rate this month. For the neighbor islands, only Kauai experienced a gain.

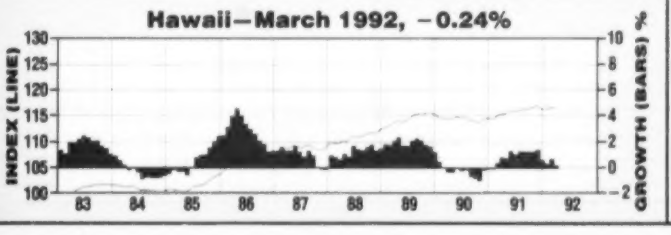


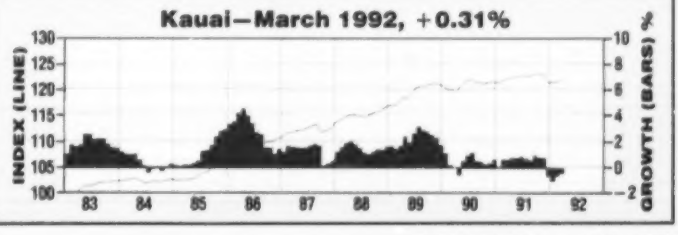
March State Index Component Changes

Credit Demand	+1.01%	Hawaii Stock Index	-0.40%
Average Workweek Hour	+0.28%	Visitor Count	-0.69%
Labor Market Conditions	+0.27%	Construction Contracts	-1.46%
National Leading Index	+0.20%	Trade-weighted Exchange Rate	-2.31%
Monetary Policy	+0.12%		
Expected Purchasing Power	+0.08%		









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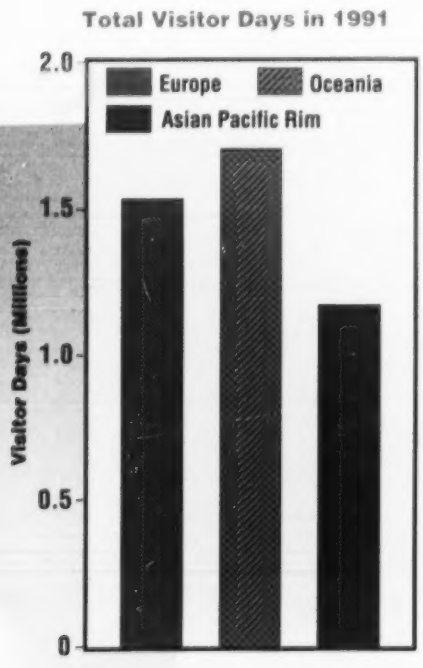
Current Business Trends: Europe's Tourism Presence in Hawaii



Efforts to expand our tourism markets to Europe build on an already meaningful base. European visitors to Hawaii are now quite small relative to the total, but excluding the major U.S. and Japan markets a different picture emerges.

In 1991, the United Kingdom ranked fourth in the number of foreign visitors after Japan (by far the largest), Canada (considered by some to be the same as the domestic market), and Australia. Germany was eighth—following Taiwan, New Zealand, and Korea.

Because Europeans generally stay longer, however, total visitor days is a better measure of their economic contribution than just visitor numbers. The chart summarizes 1991 visitor days by geographic origin from those countries that are not now major markets. U.S. mainland and Japanese visitors are excluded because those two account for such a large share of the total, and Canada is excluded also because of its identifiability with the mainland.

Some might not have guessed beforehand that in 1991 visitor-days,

In 1991 visitor-days, Europe outranked the Asian Pacific Rim and it almost exceeded Oceania.

Europe outranked the Asian Pacific Rim (Taiwan, Korea, China, Singapore, the Philippines, and Indonesia) or that it almost exceeded Oceania (Australia and New Zealand). By far the greatest share of Europe's total was accounted for by the United Kingdom and Germany.

These numbers are impressive because of the timing of Europe's economic cycle. The United Kingdom now struggles to recover from recession as Germany enters one. As for the countries further down the European list, research indicates those countries that now send relatively few visitors to Hawaii are not basically aware of it as a destination, presenting an opportunity and challenge for marketing efforts.

B3500-1

ECONOMIC INDICATORS

Research Department

First Hawaiian Bank

July/August 1992

A Slightly More Affordable Paradise

No other topic has drawn as much attention in Hawaii as the unaffordability of its housing. For years residents have struggled with how they could afford homes. Yet despite the high prices, and perhaps through family help, some residents still managed to purchase homes. Probably what motivated the purchases was the seemingly continuous upward momentum in prices. Given the inflation in real estate, home-ownership in Hawaii has been considered a very good investment over the years.

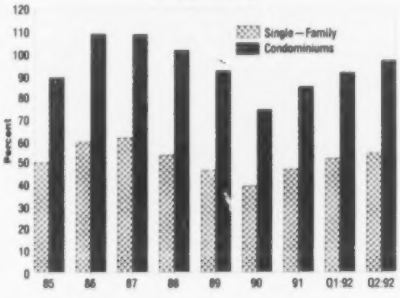
Hawaii has gone through several cycles of price upswings and moderations, but never has the state experienced the major real estate deflation that has occurred in some areas of the mainland. If this continues, the track record should keep home-ownership in Hawaii as a desirable goal.

Important for the current moderation in the price cycle, it is the first time that several *other* forces have come together to help with the housing affordability goal. Three things have coincided recently to assist in bringing a home more within reach financially.

First, we are in a period of sustained housing price softness. The pause in the real estate market began around the latter half of 1990, so the state is about to enter the second year of lower prices. According to the Honolulu Board of Realtors, the median single-family home price last peaked in August 1990 at $392,000; in June of this year, the median stood at $355,000. Condominiums peaked in October 1990 at $208,000; now, the median is at $195,000.

Second, the decline in interest rates has helped. The effective rate on conventional fixed mortgages was 10.48% in May 1990, and by June 1992, it had fallen to 8.51%. The combination of continued moderate inflation and slower economic growth should keep interest rates relatively level into the near future.

Family Mortgage Servicing Capacity



The third factor is rising incomes. Employment income rose by 7% last year. Currently, we estimate that family income is rising at a 2 to 3 percent rate, despite some slack that has been building in the labor market. While the outlook for salary and wage increases is not great because of slower economic conditions, even small increases are helpful.

The current moderation in the price cycle is the first time that several *other* forces have come together to help with the housing affordability goal.

Overall, the increases in family incomes, the softness in the real estate market, and decreases in interest rates have come together to put housing in greater reach of residents. According to the chart of mortgage servicing capacity for Honolulu families, housing affordability reached bottom in 1990. During that year, a typical family in Hawaii could afford 40% of the median-priced single-family home mortgage in Honolulu, and 74% of a condominium mortgage. Those ratios increased to 54% and 96%, respectively, by the end of the second quarter 1992. The higher those ratios are, the easier it is for families to service mortgages.

A fourth factor worth mentioning, this one on the supply side, is the effort by the government and private sector to increase the housing inventory. The growth of residential housing (including rentals) from 1986 to 1991 was more than twice the rate of the 1980 to 1985 period. According to state estimates, over 9,000 housing units were added to the state housing stock between April 1990 and March 1991, over 4,000 of which were in Honolulu. In 1991, Honolulu's residential housing stock inventory increased by 1.3%, while the neighbor islands' increases ranged from 3% for Maui to 7% for Kauai.

This more moderate real estate market, by local standards, is welcome news for those wanting to become homeowners. But it also may be obvious that it is not great news for everyone. Those who expect to sell or bequeath homes to family members may not be as enthusiastic about lower home values. Also, those who recently purchased homes will not welcome both the marginal decline in the values of their homes and the slower expected growth in wages.

Still, the fact remains that after two years of soft real estate prices, other factors have also helped to create a market which approaches the environment prior to the most recent upswing in prices. With the expected build-out of major projects, real estate for residents could turn even more favorable in the next few years.

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Personal Income by Sector: A Comparison Across Counties

The U.S. Bureau of Economic Analysis (BEA) recently released annual personal income figures through 1990—broken down by industry for the nation, Hawaii, and the state's four counties. The value of this data series is that it gives insight into the relative sizes of various industries for each of the counties as measured by income. Also, during this period of weak westbound tourism and private sector construction, the data suggest which counties could be hit hardest.

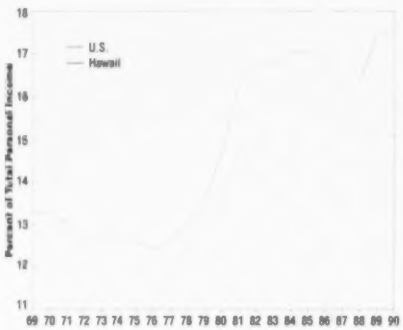
Personal income is simply the current income received by residents of a geographic area from all sources. It includes earnings by place of work, dividends, interest, rent, and government transfer payments, less personal contributions for social insurance. Since personal income is a major component of the gross state product figures used to gauge the Hawaiian economy, it is a good proxy for overall economic conditions.

Unfortunately, BEA categories for personal income do not correspond exactly to the sectors we usually examine in analyzing our state economy. But this article attempts to address that problem.

Hawaii's personal income, on a per capita basis, has historically been higher than the national average. This favorable position can be credited to an economy which has generally done well compared to the nation. In 1991, Hawaii's per capital personal income of $21,306 was the seventh highest in the nation, versus being seventeenth in 1986 at the start of the upswing in construction and tourism.

The data suggest that Hawaii residents, on average, work harder for their incomes. Hawaii's income from investment and savings has not been high compared to the mainland average. The first chart shows income from dividend, interest, and rent as a percentage of personal income. The U.S. and Hawaii have experienced a relative increase in investment and saving income since 1976, and both percentages usually move together. However, in 1982, this source of income fell for Hawaii residents in all counties, causing a larger gap in investment and savings income between Hawaii and the U.S. In 1990, Kauai had the largest share of its personal income from savings and investments (17%) and Honolulu the lowest (15%).

Chart 1
Dividend, Interest, & Rent



Reasons for the fall in state investment and savings income are not obvious. However, Hawaii's higher cost of living would lead to less income available for investments and savings, and local inflation accelerated at the same time the state began to diverge from the national trend. The gap between Hawaii and the U.S. average may not narrow soon.

Maui will probably feel the effects of construction's slowdown more than the other counties.

Industry Analysis. The second chart shows the distribution of earnings by place of work across industries and by county for 1990. As one would expect, government and FIRE (finance, insurance, and real estate) made up a relatively larger share of earnings—28% and 8%, respectively—in Honolulu than on the neighbor islands mainly because Oahu is the state capital and the location of business headquarters. Mining/construction, wholesale/retail, and services industries had relatively greater presences on Maui based on shares of total earnings. The Big Island had two industries that were more important relative to other counties, farming and manufacturing. For Kauai, transportation and public utilities generated a greater share of that county's total earnings than elsewhere.

The most significant change over recent years is between the government and the service sectors. *Government* has traditionally been the single greatest source of employment, accounting for $3.9 billion in wages and salaries in 1988, versus $3.8 billion for services. In 1989, *services* topped government marginally at $4.2 billion, and the spread increased further in 1990, at $4.8 billion versus $4.4 billion. In 1990, services generated 37% of Maui County's earnings, followed by Kauai at 31%, the Big Island at 30%, and Honolulu at 27%.

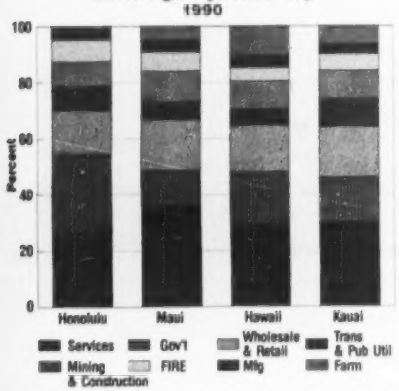
Mining/construction bears additional attention due to the current cyclical environment. Hawaii ended the longest construction boom in its history last year. Beginning in 1985, when the dollar began its large decline against the Japanese yen, Hawaii was a major recipient of Japanese financed construction. It took 13 years (1978 to 1987) for construction to grow from a $1-billion per year industry to a $2-billion a year industry, and another two years (1989) for it to reach $3 billion in activity. In 1990, the industry surpassed $4 billion. However, despite the recent surge in construction activity, in 1990 the industry generated only 9% of total earnings, whereas in 1970 the industry generated 11% of total earnings. By this relative measure, the early 1970s were a bigger boom period for the industry than the late 1980s.

The industry is now in a slow-growth phase, and Maui will probably feel the effects of construction's slowdown more than the other counties. In 1990, Maui's construction industry generated 11% of the county's earnings, the highest ratio in the state. Likewise, Maui's industry experienced the greatest relative growth between 1985 to 1990 — 3 percentage points. During this period, hotel construction was a major generator of jobs, and Maui had a 4,000-unit addition to its visitor plant inventory, more than the Big Island and

Kauai combined.

Agriculture is an interesting industry because it is not as sensitive to national economic conditions as tourism and construction. In terms of the actual level of income, it is the only industry for which the major presence is not on Oahu. Total earnings in 1990 amounted to $142 million for the Big Island versus $117 million for Honolulu. On a statewide basis, its share of earnings was about the same in 1980 as in 1970 (slightly under 5% of total earnings) despite the demise of some of the sugar plantations that occurred during the decade. In 1990, agriculture made up just 2% of total earnings. The

Chart 2
Earnings by Industry
1990



most recent figures indicate that 38% of all farming income is generated on the Big Island, 32% on Oahu (due mainly to non-farm agricultural services), 19% on Maui, and 11% on Kauai. Agriculture should have a relatively greater stabilizing influence for the Big Island economy.

Noticeably, *tourism* is absent from our income comparison. This is because tourism is not recognized as a single industry in BEA classifications, but rather it is composed of pieces from a variety of industries. Yet, a question often asked of local economists is what share of county economies is due to visitor industry activities. This question is asked even more now that the industry is in a slump.

It takes some creativity to answer this question. The Hawaii Visitors Bureau annually publishes visitor expenditure figures for the state and counties, and the per day expenditure levels of tourists from major markets, all survey-based for the overseas overnight and longer visitors. Furthermore, the expenditures are divided between categories such as lodging, retail purchases, entertainment, and so on. Attaching *state* household income coefficients to those categories yields the proportions of direct county-level income attributed to tourism (see Chart 3).

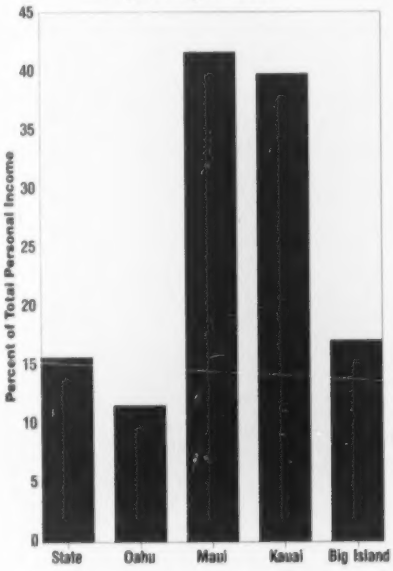
All that can be said with certainty is that tourism directly generated about 16% of the state's personal income in 1990. No current analysis can determine what portion of revenues generated on the neighbor islands goes toward "headquarter" functions in Honolulu. (Actual county income coefficients therefore would probably be lower.) For example, for firms with multiple island operations, some revenues would go toward income of the accountants, marketers, and other overhead functions at headquarters. Nevertheless, by using the same state coefficients and methodology, the tourism share of personal income ranged from a low of 12% for Honolulu to a high of 42% for Maui. Honolulu's low share was due to the diversity of its economy, despite its having the largest visitor industry in the state. The Big Island's low share was due to its having the smallest visitor industry in the state, vis-a-vis other larger sectors.

The tourism share of personal income ranged from a low of 12% for Honolulu to a high of 42% for Maui.

While total neighbor island personal income due directly to tourism activities may be somewhat overstated, the actual *shares* may not be affected much. Based on occupancy rates, Honolulu had a better year than the neighbor islands in 1990. That relationship would suggest that neighbor island operations would drag down statewide operations, lessening the amount of neighbor island revenues allocated to Honolulu. The direct share of personal income attributed to tourism on Maui and Kauai probably would be at least above one-third by any calculation.

Admittedly, these are estimates. However, the sectors that cater directly to tourism—services, retail, and transportation/utilities—also generated the greatest share of wages and salaries on Maui, followed marginally by Kauai.

Chart 3
"Direct" Personal Income From Tourism
By County in 1990



These results suggest that Honolulu and the Big Island should fare better during the current slowdown of tourism and construction. Honolulu is more diversified than the neighbor islands, not being as dependent on tourism and construction. On the Big Island, while construction's share of earnings is the second highest in the state, the island also has not only the smallest presence of tourism, but the largest presence of farming.

This analysis is not meant to suggest a segmentation of the effects of any slowdown. For example, despite the state's 16% share of personal income directly attributable to tourism, the other 84% obviously would feel the impact of a tourism slowdown due to multiplier effects. Likewise, the slowdown in construction would also be felt statewide since the industry pays the highest average wage in the state, and in 1990 it generated over 34,000 jobs at its peak. And finally, this is a snapshot of the economy—there is a tendency for shares to fluctuate yearly, although not by very much. The analysis at least gives insight into where public policy should be focused if a balanced state economy is desired.

Hawaii Population & Income

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Population			
State residents (thous., July 1, 1991)	1,134.8	.....	1.9
de facto (thous., July 1, 1990)	1,257.6	.....	1.0
Oahu residents (thous., July 1, 1990)	839.3	.....	0.8
de facto	913.1	.....	0.7
Maui residents (thous., July 1, 1990)	101.4	.....	5.3
de facto	139.3	.....	0.4
Hawaii residents (thous., July 1, 1990)	121.3	.....	4.3
de facto	136.3	.....	3.3
Kauai residents (thous., July 1, 1990)	51.6	.....	4.0
de facto	68.9	.....	1.6
Military personnel (thous., July 1991)	54.7	.....	−0.9
Dependents in Hawaii	63.3	.....	4.5
Foreign Immigration (no., yr. to May)	1,909	.....	−22.1
Total Personal Income			
($ mil., 1Q: 1992)	24,869	6.9*	4.6
Employment Income	18,869	7.5*	4.6
Manufacturing	723	−12.2*	1.1
Construction & Mining	1,686	1.7*	1.9
Wholesale	733	6.8*	1.7
Retail	2,155	8.0*	6.4
Finance, Ins., & Real Estate	1,416	22.1*	5.8
Trans., Comm., & Utilities	1,615	4.8*	7.0
Services	5,334	6.6*	5.5
Farm & Other	384	11.1*	9.1
Federal Civilian	1,189	10.0*	5.7
Federal Military	1,477	12.5*	−5.3
State & Local	2,153	8.8*	9.1
Property Income	3,318	−6.8*	−4.4
Transfer Payments: net of personal contributions for social insurance	2,682	0.0*	17.3
Per Capita Personal Income ($, 1990)	20,356	.....	9.1

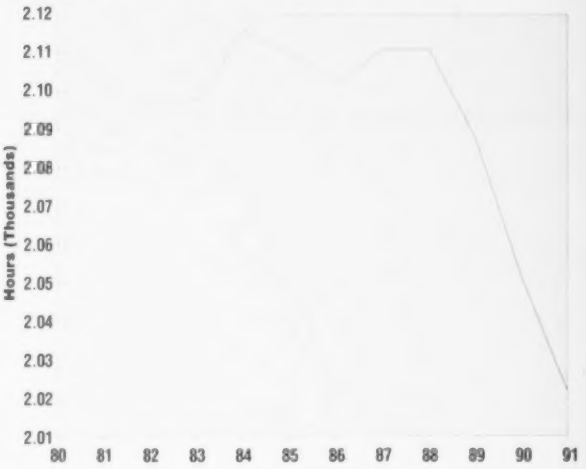
*Annual rate

International Indicators

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Hawaii Real Trade-Weighted Exchange Rate Index (1980=100, May)	114.31	0.7	1.6
Japan			
Real GNP (yen bil., 4Q: 1991)	462,678	6.1*	5.3
Yen/$ exchange rate (May)	130.57	−2.2	−5.4
Current Balance ($ bil., April)	9.75	−3.8**	2.0**
Discount rate (%, July)	3.25	−0.5**	−2.25**
Long-term prime rate (%, May)	6.0	0.0**	−1.7**
Nikkei Stock Index (avg. May)	18,336	4.2	−29.1
Real GNP/GDP, Other Hawaii Trade Tourism Partners (1985 Prices)			
Canada (GDP, bil. C$, 4Q: 1991)	547.0	−0.8*	−0.2
Australia (GDP, bil. A$, 4Q: 1991)	262.7	1.7*	−1.1
New Zealand (GDP, mil. NZ$, 4Q: 1991)	46,727	5.8*	−1.2
Korea (GDP, bil. won, 4Q: 1991)	41,354	83.3*	7.6
Taiwan (GNP, bil. NT$, 4Q: 1991)	1,075.9	4.7*	7.5
Singapore (GDP, mil. SGD, 1991)	60,960	.....	6.7
Philippines (GNP, bil. pesos, 4Q: 1991)	196.0	83.9*	0.0
United Kingdom (GDP, bil. pounds, 4Q: 1991)	407.7	−0.5*	−1.1
Germany (GNP, bil. DM, 4Q: 1991)	2,197.1	−1.8*	0.9

*Annual Rate **Incremental change

Japan's Average Annual Working Hours



Total working hours (scheduled plus overtime) in Japan has been decreasing recently. The 1991 average of 2,022 annual hours was far lower than in the early 1980s.

U.S. Economic Indicators

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Gross Domestic Product ($ bil., 2Q: 1992)			
In 1987 dollars	4,891r	1.4*	1.0
Personal Income (May)	5,008.3p	1.1*	3.8
Real Per Capita Disposable Income (1987 dollars, 1Q: 1992)	14,076r	0.7	0.8
Productivity Index Nonfarm business sector (1982=100, 1Q: 92)	110.5p	2.6*	1.9
Civilian Employment (mil., June)	117.6	−0.1	0.6
Unemployment rate (%, June)	7.8	0.3**	0.9**
Capacity Utilization (%, May)	79.0p	0.3**	−0.1**
Consumer Confidence Index (1985=100, July)	61.0p	−16.0	−21.5
Price Indexes			
CPI-U (1982-84=100, June)	140.2	3.7*	3.1
PPI-Finished Goods (82=100, June)	123.7	2.4*	1.9
Prime Interest Rate (%, June)	6.5p	0.0**	−2.0**
Federal funds rate (%, June)	3.8	−0.1**	−2.1**
3-Month Treasury bill (%, June)	3.7	0.0**	−1.9**
30-Year Treasury bond (%, June)	7.8	0.0**	−0.6**
Money Supply (M2, $ bil., seas. adj., June)	3,458.8r	−3.6*	1.4
Domestic Nonfinancial Debt ($ bil., April)	11,373.1	0.4	4.5
Corporate Profits—After Tax ($ bil., 1Q: 1992)	211.2r	11.3	11.3
Common Stock (DJIA, June)	3,337.79p	−1.2	12.5
Current Balance ($ bil., 1Q: 1992)	−5.3p	1.9**	−17.5**
Trade Balance ($ bil., 1Q: 1992)	−17.5p	1.1**	0.9**

r=revised p=preliminary *Annual change **Incremental change

Retail Sales

12-Month Moving Total

Only the 1982 recession can match the steep decline in in state 1991 retail sales growth, which was impacted by the Gulf war, a decline in tourism, and resident pessimism. Recent upticks are encouraging signs of increased consumer confidence.

Hawaii Banking & Finance

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Commercial Bank Deposits ($ bil., 12-month ending June)			
State Total Deposits	157.3	.....	1.5
Debits to demand deposits	274.1	.....	20.8
Oahu Total Deposits	131.1	.....	2.0
Debits to demand deposits	256.2	.....	23.0
Maui Total Deposits	10.2	.....	−4.3
Debits to demand deposits	7.3	.....	−10.3
Hawaii Total Deposits	10.8	.....	0.7
Debits to demand deposits	7.2	.....	0.2
Kauai Total Deposits	5.2	.....	3.2
Debits to demand deposits	3.4	.....	1.6
Bank Loans Outstanding ($ mil., 1Q: 92)			
State	10,178.1	0.6	8.7
Real Estate	5,243.1	1.4	11.4
Consumer	1,136.6	−4.0	−9.5
Commercial & Industrial	3,001.9	−1.7	7.3
Other	673.3	1.7	25.3
Conventional Home Mortgage Rate			
Honolulu (%, 1st Qtr.: 1992)	8.46	1.17**	−0.5**
State Tax Collections ($ mil., yr. to June)	1,429.0	.....	−1.1

***Incremental change*

Hawaii Employment & Jobs

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Civilian Employment (thous., June)			
State Labor Force	572.6p	2.0	1.2
Employment	544.0p	1.1	−0.7
Unemployment rate (%)	5.0p	0.8**	1.9**
Oahu Labor Force	408.4p	1.8	0.2
Employment	392.5p	1.1	−0.8
Unemployment rate (%)	3.9p	0.6**	1.2**
Maui Labor Force	64.6p	2.7	6.0
Employment	60.5p	1.8	3.1
Unemployment rate (%)	6.4p	0.9**	2.7**
Hawaii Labor Force	68.9p	2.2	3.4
Employment	62.7p	0.2	−1.0
Unemployment rate (%)	9.1p	1.8**	4.1**
Kauai Labor Force	30.8p	2.8	0.0
Employment	28.4p	1.1	−3.9
Unemployment rate (%)	7.7p	1.4**	3.6**
Job Count by Industry (thous., June)			
Total Jobs—State	595.5p	0.2	0.6
Oahu	447.8p	0.2	0.4
Maui County	58.8p	0.8	3.0
Hawaii	60.2p	−0.5	0.1
Kauai	28.9p	0.3	−0.7
Sugar (mill & field)	5.3p	1.0	−2.8
Pineapple (cannery & field)	3.0p	11.3	−15.7
Diversified Agriculture	10.4p	6.2	13.1
Diversified Manufacturing	16.7p	1.2	0.9
Durable goods	4.5p	1.1	1.1
Non-durable goods	12.3p	1.7	0.8
Apparel & textiles	1.9p	0.0	−5.1
Contract Construction	31.9p	−0.2	−6.2
Transportation	32.8p	0.2	−0.8
Communication	7.4p	0.0	−1.3
Utilities	3.3p	0.0	3.2
Retail Trade	113.1p	0.4	−0.4
Wholesale Trade	22.3p	−0.4	−1.8
Finance, Insurance, & Real Estate	37.9p	0.3	0.7
Hotel Services—State	40.7p	−0.6	2.3
Oahu	20.2p	0.2	3.1
Maui County	10.5p	−0.5	16.1
Hawaii	5.8p	−4.2	−12.9
Kauai	4.4p	0.0	−6.5
Other Services	119.0p	0.8	1.1
Federal Government	33.8p	1.0	0.1
Civilian Agencies	14.9p	1.0	−1.7
Defense Department	19.0p	1.1	1.6
State Government	64.2p	−3.7	4.5
County Government	15.0p	0.7	2.4
Non-Agriculture Self-Employed	39.1p	1.7	0.4

*p=preliminary **Incremental change*

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Hawaii Business Activity

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
State Gross Business Receipts			
($ mil., year to May)	18,033.8	.....	1.7
Diversified Manufacturing	284.0	.....	0.8
Diversified Agriculture	158.0	.....	19.2
Retailing	5,901.5	.....	2.7
Wholesaling	4,403.2	.....	−2.6
Services	4,380.9	.....	2.2
Construction	1,726.8	.....	−3.7
Other	1,169.5	.....	22.2
Retail Car Sales—State			
(Number, year to May)	13,877	.....	−18.9
Oahu	10,575	.....	−18.9
Maui	1,394	.....	−11.8
Hawaii	1,273	.....	−30.5
Kauai	635	.....	−2.9
Honolulu CPI (1982-84 = 100, 2nd half 1991)			
Urban Wage Earners &			
Clerical Workers	150.1	3.2*	6.0
All Urban Consumers	149.1	3.1*	5.9
Tourism (Number, June)			
Overnight or Longer Visitors	567,850p	10.7	−10.0
year to date	3,211,440p	.....	−0.8
Westbound Visitor Counter	331,440p	7.3	−20.4
year to date	1,977,970p	.....	−11.8
Oahu	216,200p	13.0	−19.7
year to date	1,245,870p	.....	−13.2
Maui County	150,110p	5.9	−14.3
year to date	919,030p	.....	−3.3
Hawaii	71,820p	12.7	−16.1
year to date	466,170p	.....	−7.9
Kauai	83,980p	7.2	−19.8
year to date	485,790p	.....	−10.3
Average Daily Census	120,310p	21.9	−10.2
Average Length of Stay (days)	10.9p	10.0	12.7
Eastbound Visitor Count	236,410p	15.9	10.0
year to date	1,233,470p	.....	24.1
Oahu	227,330p	15.9	12.9
year to date	1,194,680p	.....	27.8
Maui County	47,490p	10.4	20.5
year to date	225,100p	.....	26.4
Hawaii	22,140p	8.1	55.7
year to date	101,650p	.....	13.3
Kauai	18,960p	−6.9	24.5
year to date	101,190p	.....	28.2
Average Daily Census	45,390p	27.8	8.5
Average Length of Stay (days)	5.8p	6.7	−1.4
Hotel Occupancy Rate—State			
(%, June)	70.7	3.0**	−3.3**
year to date	70.8	.....	1.7**
Oahu	83.1	6.8**	0.0**
year to date	80.8	.....	5.8**
Maui Island	57.5	−0.7**	−8.6**
year to date	60.0	.....	−3.2**
Hawaii	46.5	−2.8**	−5.7**
year to date	54.0	.....	−3.4**
Kauai	56.2	−0.1**	−5.7**
year to date	54.7	.....	−3.9**

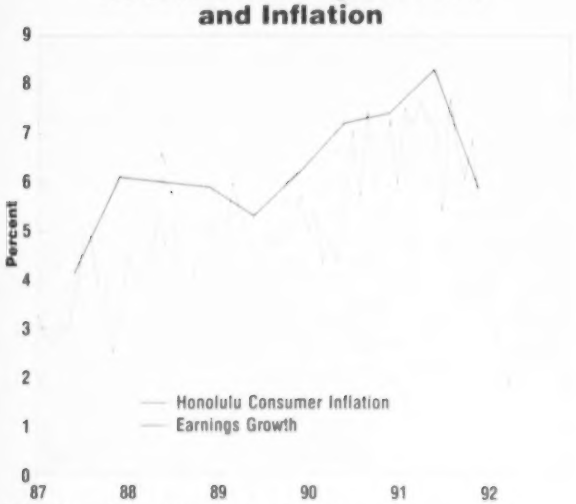
*p=preliminary *Annual rate **Incremental change*

Hawaii Business Activity *(Cont.)*

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Defense Appropriations			
Total Funds ($ mil., 1st Qtr: 1992)	535.4[1]	.....	5.4
Military payroll	264.8[1]	.....	16.0
Civilian payroll	159.4[1]	.....	−4.8
Local purchases	113.1[1]	.....	0.7
Agriculture (year to May)			
Sugar Production (tons)	198,131	.....	−4.5
Price per ton	426.80	.....	−0.6
Pineapple Production (thous. lbs.)	103,682	.....	1.6
Honolulu Construction Cost Indexes (June)			
Single Family (1992 = 100)	103.6	.....	6.7
High Rise (1992 = 100)	99.5	.....	0.8
Private Permits ($ thous., yr. to June)			
State Residential	527,776[2]	.....	−41.6
Nonresidential	427,770[2]	.....	17.7
Oahu Residential	358,074	.....	−40.7
Nonresidential	219,416	.....	−16.4
Maui County Residential	68,806	.....	3.0
Nonresidential	40,676	.....	6.2
Hawaii Residential	86,080	.....	−53.8
Nonresidential	155,033	.....	369.5
Kauai Residential	14,820[2]	.....	−30.0
Nonresidential	12,643[2]	.....	−42.8
Public Contracts Awarded			
State ($ thous., year to June)	598,820	.....	71.1
Oahu	506,133	.....	82.2
Maui County	15,278	.....	−54.8
Hawaii	37,035	.....	128.9
Kauai	40,375	.....	83.1
By Level of Government			
Federal	73,789	.....	29.6
State	319,739	.....	44.7
County	205,293	.....	185.0
Real Estate Resales (June)			
State: Single Family (number)	324	.....	12.1
Average price	344,256	.....	−0.1
Condominium (number)	413	.....	21.1
Average price	224,805	.....	3.1
Oahu: Single Family (number)	187	.....	11.3
Average price	398,702	.....	−0.5
Condominium (number)	313	.....	13.0
Average price	219,696	.....	−1.7
Maui County: Single Family (number)	36	.....	−20.0
Average price	293,888	.....	−11.0
Condominium (number)	59	.....	90.3
Average price	256,113	.....	23.2
Hawaii: Single Family (number)	76	.....	22.6
Average price	254,946	.....	18.2
Condominium (number)	31	.....	19.2
Average price	226,484	.....	21.2
Kauai: Single Family (number)	25	.....	78.6
Average price	281,028	.....	−2.7
Condominium (number)	10	.....	42.9
Average price	194,775	.....	20.6

**Incremental change [1]Does not include Air Force and the Coast Guard*
[2]Includes Kauai through March

Honolulu Earnings Growth and Inflation



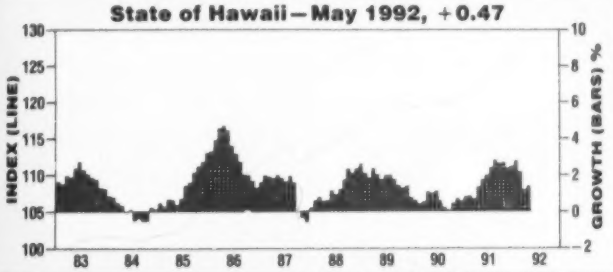
If the Honolulu average workweek earnings growth rate is any indication of inflation, then in the next Honolulu Consumer Price Index release (mid-August), inflation could come down considerably.

Hawaii Public Assistance

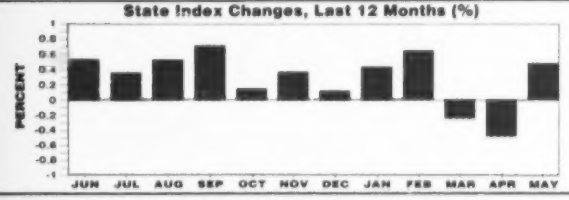
Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Unemployment Insurance (June)			
Insured Unemployment (wkly. avg.)	14,361	20.9	91.8
Intrastate Initial Claims	6,859	16.9	46.6
Interstate Initial Claims	435	35.1	98.6
Benefits ($ thous., year to date)	70,945	.....	81.5
Income Maintenance (May)			
Recipients (no. persons)	61,274	0.6	10.4
Payments ($ thous., year to date)	65,920	.....	14.9
Medical Assistance (June)			
Recipients (no. patients)	51,902	−9.8	0.5
Payments ($ thous., year to date)	149,359	.....	−1.3
Food Stamps (April)			
Recipients (no. persons)	92,469	1.6	10.0
Payments ($ thous., year to date)	37,521	.....	12.8
Services (1Q: 1992)			
Recipients (no. cases)	5,898	−6.4	−8.9
Payments ($ thous., year to date)	5,582	.....	35.0

First Hawaiian Bank Index of Leading Economic Indicators

State of Hawaii—May 1992, +0.47



State Index Changes, Last 12 Months (%)

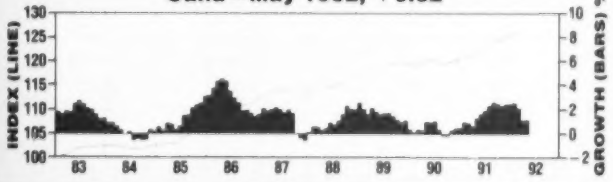


The leading index increased by 0.5% to 126.6 in May, breaking the declines of the two previous months. The index hints at recession but may suggest very slow positive growth for the last portion of the year. Seven of the ten components registered gains. Average workweek hours increased on a rebound in the number of hours worked. Credit demand also rose, reversing the decline in April. The trade-weighted exchange rate component increased on strengthening foreign currencies. The national leading index registered its fifth consecutive monthly increase, signalling a rebounding U.S. economy. Construction contracts, Hawaii stocks, and the visitor count also rose somewhat. At the county-level, only Maui's index decreased.

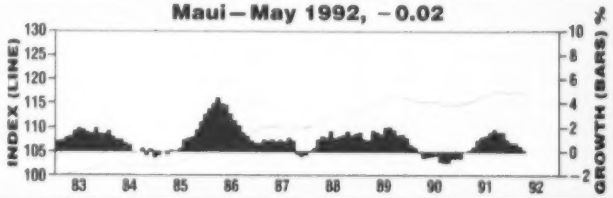
May State Index Component Changes

Credit Demand	+1.01%	Hawaii Stock Index	−0.40%
Average Workweek Hour	+0.28%	Visitor Count	−0.69%
Labor Market Conditions	+0.27%	Construction Contracts	−1.46%
National Leading Index	+0.20%	Trade-weighted Exchange Rate	−2.31%
Monetary Policy	+0.12%		
Expected Purchasing Power	+0.08%		

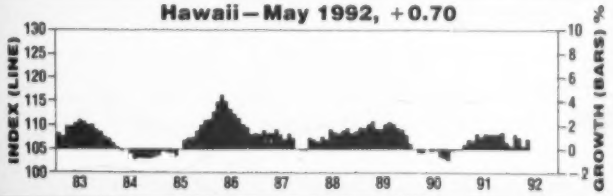
Oahu—May 1992, +0.32



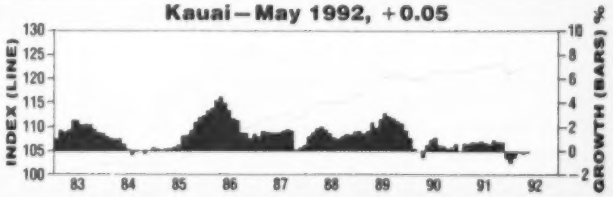
Maui—May 1992, −0.02



Hawaii—May 1992, +0.70



Kauai—May 1992, +0.05



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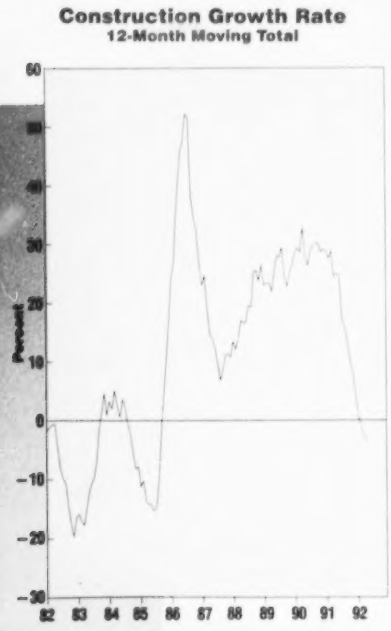
Current Business Trends: Construction Work Stoppages



Much attention has been focused on the construction industry. Last year, it generated over 33,000 jobs. This year, construction is struggling to maintain 32,000 jobs, which would put the job count back to mid-1990 levels. Forecasts this year call for 5 to 10% declines in activity, as measured in dollar value.

This year, labor contracts are set to expire for a variety of workers. A strike at one company was settled relatively quickly after 1 1/2 weeks. This averted a shut-down of the entire industry and a possible repeat of 1984 when virtually the entire industry struck. Strikes in the industry lasted from July 1984 to early January 1985, and it took another several months before the job count reached pre-strike levels.

The environment this year is different than in 1984. Then, the industry was recovering from recession. Today, the industry is entering one. Construction activity entered negative growth territory in early 1992, based on an annual moving total.

Construction is still an important part of the state economy, even in the current low-growth environment. For the near- term, most of the activity will come from public works and residential construction rather than commercial and resort projects in recent past years.

This year, construction is struggling to maintain 32,000 jobs, which would put the job count back to mid-1990 levels.

Work stoppages would be felt across the entire economy. Strictly from a bargaining position, there are better times for labor-management disputes than the current juncture of the state's construction cycle. It is hoped that contract renegotiations will proceed without stoppages that aggravate the industry's inevitable downturn.

B3500-1A

ECONOMIC INDICATORS

Research Department

First Hawaiian Bank

September/October 1992

Honolulu's Office Market

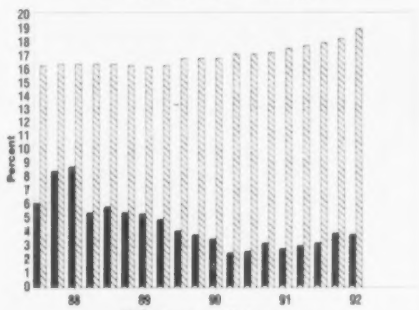
From an owner-property management standpoint, Honolulu's office market has long been the envy of virtually all U.S. metropolitan office markets. The vacancy rate has been the lowest in the nation, creating a landlord's market very similar to Honolulu's residential real estate market. However, the tight Honolulu office market is easing, generating some concerns that the market could be overbuilt, especially in this slower economic environment.

The chart compares the downtown Honolulu vacancy rate with the U.S. average. According to CB Commercial Real Estate Group, the March 1992 Honolulu rate of 3.7% was about one-fifth the national average of 18.8%. Of 56 major metropolitan areas, only Las Vegas came close to Honolulu at 10.3%; the Las Vegas downtown office vacancy rate was about 6% for the six months prior. Honolulu's low vacancy rate has led to annual increases in lease rent for vacant space on the order of 9% for the past several years, vis-a-vis average annual increases in the Honolulu Consumer Price Index of about 7%.

Countering the tight office market, a number of downtown office buildings have recently been completed or will be completed in the near future. These include the Alii Place and First Hawaiian Tower in 1992, 1100 Alakea estimated for 1993 and Harbor Court for 1994. (This list does not include office buildings under construction elsewhere on Oahu.) This is the first time in over a decade that so much space has come on-line at once, resulting in an estimated 9.1% vacancy rate for second quarter 1992. There are a variety of other office buildings in the planning stages, including a new 418,000 square foot First Hawaiian Center, which is 80% pre-leased. Businesses needing fairly large floor space, such as law and accounting firms, now are able to choose either staying in the current location, or moving to other locations in downtown. Typically in the past, only small parcels of vacancy existed, satisfying the relocation needs only of small tenants.

There are reasons to believe that

Office Vacancy Rates
Honolulu vs U.S. Average



Source: CB Commercial Real Estate Group

Honolulu will not have a glut of office space. Most analysts expect an office vacancy rate by the end of this year in the high single digit to the low double digit range. Lenders, as a rule of thumb, assume a 5% vacancy rate as a stable level due to turnover in leases, and Honolulu last had a 5% rate in early 1989.

Most analysts expect an office vacancy rate by the end of this year in the high single digit to the low double digit range.

The first reason why Honolulu's market will remain firm is the slowdown in external capital inflows. Cheap credit along with much optimism motivated office building developments on the mainland, very similar to the motivations for hotel and resort developments on Hawaii's neighbor islands. Despite lower interest rates, credit for office projects is less available, and developers are fully aware that the Hawaiian economy is also vulnerable to downturns. This trend has caused indefinite postponement of quite a number of developments that were discussed and planned just a few years ago.

Second, during Hawaii's boom years, many buildings were 100% occupied, leaving no space for firms to expand within the same location. While some corporate downsizing may be occurring due to the slower economy, and some businesses are moving functions elsewhere (First Hawaiian is moving some functions to its new operations center at Dillingham), some of the additional space will be taken up by existing tenants to alleviate overcrowded conditions. And higher vacancies lead to downward pressure on lease rents, attracting firms back to the central business district.

Third, Honolulu's downtown office market is small, ranking 38th in total square footage out of 44 downtown office markets. (Downtown Las Vegas, the second lowest in vacancy, is ranked 44th.) The suburban Oahu office market, which has been an outlet for downtown tenants, is ranked 48th out of 49 suburban markets.

Overall, it is expected that the easing market should last for only the near term. The greater slack is a function of supply, but important factors prevent excess development. Demand for prime office space should remain healthy, given the size of downtown Honolulu.

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Honolulu Rapid Transit; Yes or No?

Few public ventures in Honolulu have ever been as controversial as the proposed Honolulu Rapid Transit (HRT) Project. The debate over some form of fixed rail system for Honolulu has continued, on and off, for decades. Conflict is understandable when one considers the fact that the project represents the largest public works undertaking ever in Hawaii. The project is likely to alter various aspects of the city's growth significantly.

Decisions on urban mass transit are always debatable in any city, not least because articulate and logical arguments by respected analysts are often made on both sides of the issue. Despite adoption of variations by a number of urban areas throughout the twentieth century, a previous cover article in *Economic Indicators* ("Forget the Fixed Guideway," March 1978) opposed the concept generally. The article pointed out that such systems do not reduce traffic congestion and pollution as often promised, and they never pay for themselves—always requiring public subsidy.

The City Council narrowly approved HRT in late 1991. This fall, the Council is expected to take a final vote on increasing the General Excise Tax (GET) from 4.0% to 4.5% to fund the project. Residents' opinions on this 0.5% GET increase are still profoundly divided.

Net Benefits. A detailed consultant study commissioned by the City (see *Economic and Financial Impacts of the Honolulu Rapid Transit Project*, KPMG Peat Marwick Technical Report, June 1992), which also includes some input by both University of Hawaii and local business economists, concludes strongly in favor of HRT. This study addresses economic impacts (e.g., construction, income and job creation, tax base growth), transportation impacts (e.g., travel time and mobility benefits, avoided parking and accident costs), and tax impacts (e.g., the burden and regressivity of the GET surcharge plus an offsetting income tax credit). All these aspects are assessed relative to a proposal extending the current bus/highway service, because of the recognition that at least some form of expanded transit service will be necessary as our economy grows.

Overall, the study finds HRT benefits to substantially exceed costs. Visitors are found to bear a full 36% of the burden of the GET surcharge. The average ~~per capita~~ net burden of the surcharge is quite manageable relative to local incomes, and an assumed income tax credit effectively eliminates regressivity of the GET addition, or its tendency to be a disproportionate burden on lower income groups.

Of course, anyone who has ever conducted such a cost/benefit analysis knows outcomes are quite sensitive to assumptions, regardless of how conservative one believes them to be. Moreover, exporting the burden of the GET surcharge to the visitor industry is not "free," especially considering the probability of future competitive pressures on our tourist industry.

Timing. The consultant report also highlights the favorable timing of the HRT project. Construction benefits will accrue mostly during a period of slower economic growth for Hawaii, and the counter-cyclical benefits of such a large project are substantial (apparent from Chart 1). This point heads the list of conclusions in the report's executive summary, but it probably should not. While the point is quite valid and absolutely true, *any* kind of large public project can be justified on such grounds.

Though the report addresses various aspects of the tax burden and makes a valiant attempt to measure and weigh overall benefits against the costs, it cannot resolve once and for all the question of optimal financing for the project, which is the basic question that now confronts the Council. Unfortunately, no study can do that. Ultimately, the tax decision involves some general principles of public finance, because any public undertaking financed from general tax funds logically should benefit the entire community.

HRT as a Public Good. Whether it is equitable and/or economically efficient to finance HRT with a GET surcharge depends on the extent to which HRT is a "public good" as opposed to a "private good." A *pure* private good, privately produced, is consumed only by a private purchaser, who usually pays the full cost of its production. An extreme example might be an ice cream cone you buy from a corner vendor, who charges you his full unit cost of providing you with it; you alone consume it. A *pure* public good has two characteristics: (1) it is consumed collectively, and (2) no one can be excluded from consuming it once it is produced for one person. With the first aspect, collective consumption just means many people can consume the product at once, and adding one more does not reduce the amount available for anyone else. The second aspect infers that no means exists to prevent those who do not pay for the product from consuming it.

The case for a HRT system financed from a general tax fund depends on how much potential it holds as a public good.

These two public good characteristics are not the same. Both national defense and a movie are collectively consumed, but only national defense qualifies as a pure public good. There is no practical way to prevent non-taxpayers from enjoying the benefits of national defense, but you can charge admission to a movie house.

Everything we consume doesn't fall neatly into one of these two pure

Chart 1
Hawaii Total Personal Income Growth
1981-91 Actual, 1992 & Beyond Forecast

categories, but everything we consume *is* some combination of the two. Education is a private good, but not a pure one. Positive "externalities," or public benefits, accrue to a community with educated citizens, so a case for public subsidy of education—even a public school system—can easily be understood. A city street is a public good, but not a pure one. You could pay a toll every time you back out of your driveway, but this would be very hard to enforce. Yet there are some positive externalities that accrue to all community members from having an efficient transportation system for private vehicles—including employers who want their workforce to report to work and commuters who must get there on time. These benefits extend even to those community members that do not own a car.

If pure public goods are candidates for financing out of general sales or income tax funds, what about those public activities that have only some public good characteristics? Some of these undertakings are often candidates for public bond financing, with the debt serviced by proceeds of tolls or user fees that come closer to the unit cost of servicing the public, but those fees can be charged only if non-users can be excluded effectively. Alternatively, if the private sector has no incentive to provide some service, perhaps because the efficient scale of the project means that society needs only one provider—a natural monopoly—the typical solution is one private supplier subject to government rate regulation, as with public utilities.

Of critical importance in the HRT taxation issue is where such a project falls on the spectrum of private versus public goods. Urban mass transit is actually like a private good in the sense that it is *easy* to exclude non-users. One necessarily must buy a ticket at an entry booth to ride it. We could even charge riders the full cost of providing the service, but if we did so the system would have no riders because the price would be so high. Even if the fare is subsidized, some possibility always exists that lower income transit riders will find it prohibitive.

To opponents of HRT, of course, this itself is proof of the social inefficiency of building it. We are embarking on a public project and charging general taxpayers for it. But if the private sector were to take it on, the endeavor would be doomed. HRT would fail a market test.

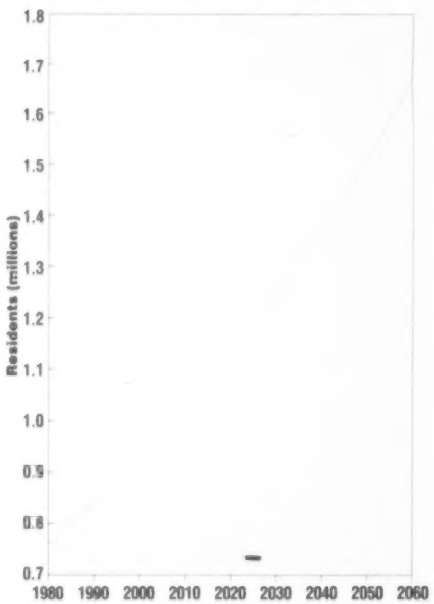
Near term costs of HRT may loom large, but public benefits will extend over many decades. To discount those benefits too highly now—benefits that include a more pleasant environment in the long run as well as a more productive and efficient economy—implies a short time horizon indeed.

Because HRT is so expensive (the current $1.7 billion estimate could easily be exceeded) and will not begin to pay for itself over a foreseeable time horizon with the average fares likely to be charged, the case *for* a HRT system financed from a general tax fund depends on how much potential it holds as a public good. In the extreme, how much will the resident or visitor who *never* rides it—for example, a windward Oahu resident, a visitor in Waikiki, or even a commuter along the proposed route who just prefers morning rush hour gridlock to a train—benefit from living in a community that has it?

A Long Term Perspective. At first, these net public benefits may not amount to much. But as time goes on, as population and the economy grow over the decades, those net benefits—compared to a community without HRT—will become increasingly hard to ignore. A growing tourism economy inevitably means more tourists as well as more people to serve them. Any growing economy must expand its work force regardless of its sectoral composition, and economies must grow to remain healthy. Chart 2 extrapolates Oahu's average population growth in the last decade well into the next century; in seven decades at that rate, it will have about doubled. How many more buses will it take to get those people to work, and how wide must the roads be to accommodate them? Near term costs of HRT may loom large, but the public benefits will extend over many decades. To discount those benefits too highly now—benefits that include a more pleasant environment in the long run as well as a more productive and efficient economy—implies a short time horizon indeed.

One thing is clear. Fifteen years ago it was far easier to argue against fixed rail transit in Honolulu, and far less expensive to build it, than it is today. Over the next 15 years, the desirability and expense of such a project will grow likewise, but more urgently and at an increasing rate.

Chart 2
Honolulu Resident Population
1980-90 Actual, 1991 & Beyond Forecast



If we discount those future net public benefits—most of which will accrue in the next century—so highly that they make little difference in our day to day life right now, then our view is far different than if we are looking forward to our children and grandchildren growing to adulthood here. No wonder decisions like HRT are laced with such uncertainty.

Hawaii Population & Income

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Population			
State residents (thous., July 1, 1991)	1,134.8	.....	1.9
de facto (thous., July 1, 1990)	1,257.6	.....	1.0
Oahu residents (thous., July 1, 1990)	839.3	.....	0.8
de facto	913.1	.....	0.7
Maui residents (thous., July 1, 1990)	101.4	.....	5.3
de facto	139.3	.....	0.4
Hawaii residents (thous., July 1, 1990)	121.3	.....	4.3
de facto	136.3	.....	3.3
Kauai residents (thous., July 1, 1990)	51.6	.....	4.0
de facto	68.9	.....	1.6
Military personnel (thous., July 1991)	54.7	.....	−0.9
Dependents in Hawaii	63.3	.....	4.5
Foreign Immigration (no., yr. to July)	2,805	.....	−17.8
Total Personal Income ($ mil., 1Q: 1992)	24,869	6.9*	4.6
Employment Income	18,869	7.5*	4.6
Manufacturing	723	−12.2*	1.1
Construction & Mining	1,686	1.7*	1.9
Wholesale	733	6.8*	1.7
Retail	2,155	8.0*	6.4
Finance, Ins., & Real Estate	1,416	22.1*	5.8
Trans., Comm., & Utilities	1,615	4.8*	7.0
Services	5,334	6.6*	5.5
Farm & Other	384	11.1*	9.1
Federal Civilian	1,189	10.0*	5.7
Federal Military	1,477	12.5*	−5.3
State & Local	2,153	8.8*	9.1
Property Income	3,318	−6.8*	−4.4
Transfer Payments: net of personal contributions for social insurance	2,682	0.0*	17.3
Per Capita Personal Income ($, 1991)	21,190	.....	4.1

*Annual rate

International Indicators

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Hawaii Real Trade-Weighted Exchange Rate Index (1980=100, July)	116.86	2.2	3.6
Japan			
Real GNP (yen bil., 1Q: 1992)	467,311	4.2*	3.9
Yen/$ exchange rate (July)	125.63	−0.9	−9.0
Current Balance ($ bil., June)	9.36	−0.1**	4.3**
Discount rate (%, July)	3.3	−0.5**	−2.3**
Long-term prime rate (%, July)	6.1	−0.2**	−1.8**
Nikkei Stock Average (July)	16,278	−4.0	−29.9
Real GDP/GNP, Other Hawaii Trade Tourism Partners (1985 Prices)			
Canada (GDP, bil. C$, 4Q: 1991)	547.0	−0.8*	−0.2
Australia (GDP, bil. A$, 4Q: 1991)	262.7	1.7*	−1.1
New Zealand (GDP, mil. NZ$, 4Q: 1991)	46,727	5.8*	−1.2
Korea (GDP, bil. Won, 4Q: 1991)	41,354	83.3*	7.6
Taiwan (GNP, bil. NT$, 1Q: 1992)	1,075.9	4.7*	7.5
Singapore (GDP, mil. SGD, 1991)	60,960	.....	6.7
Philippines (GNP, bil. pesos, 1Q: 1992)	171.7	−41.5*	0.5
United Kingdom (GDP, bil. pounds, 4Q: 1991)	407.66	−0.5*	−1.1
Germany (GNP, bil. DM, 4Q: 1991)	2,197.1	−1.8*	0.9

*Annual Rate **Incremental change

Interest Rate Spread

30-Year to 3-Month Treasury Securities

Long-term interest rates have fallen since April, but they are still high relative to short rates. There is still much room for long rates to decline in closing the historically high spread between long and short rates.

U.S. Economic Indicators

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Gross Domestic Product ($ bil., 2Q: 1992)	5,893.6r	3.7*	4.2
In 1987 dollars	4,890.5r	1.4*	1.5
Personal Income (June)	5,024.4p	−0.2*	4.1
Real Per Capita Disposable Income (1987 dollars, 2Q: 1992)	14,006r	−0.1	0.8
Productivity Index Nonfarm business sector (1982=100, 1Q: 92)	110.5p	2.6*	1.9
Civilian Employment (mil., July)	117.8	0.2	0.9
Unemployment rate (%, July)	7.7	−0.1**	1.0**
Capacity Utilization (%, June)	78.5p	−0.4**	−1.1**
Consumer Confidence Index (1985=100, August)	58.0p	−5.2	−23.8
Price Indexes			
CPI-U (1982-84=100, July)	140.5	3.7*	3.2
PPI-Finished Goods (82=100, July)	123.7	2.4*	2.1
Prime Interest Rate (%, July)	6.0p	−0.5**	−2.5**
Federal funds rate (%, July)	3.3	−0.5**	−2.6**
3-Month Treasury bill (%, July)	3.3	−0.4**	−2.3**
30-Year Treasury bond (%, July)	7.6	−0.2**	−0.8**
Money Supply (M2, $ bil., seas. adj., July)	3,454.9r	−1.3*	1.4
Domestic Nonfinancial Debt ($ bil., May)	11,420.0	0.4	4.4
Corporate Profits—After Tax ($ bil., 1Q: 1992)	229.7r	10.8	6.2
Common Stock (DJIA, July)	3,329.41	−0.3	11.8
Current Balance ($ bil., 1Q: 1992)	−5.3p	1.9**	−17.5**
Trade Balance ($ bil., 1Q: 1992)	−17.5p	1.1**	0.9**

r=revised p=preliminary *Annual change **Incremental change

General Excise and Use Tax Growth Rate

12-Month Moving Total

General excise and use taxes made up 46% of the state's tax revenues for the fiscal year ending June 1992. Recent revenue growth is welcome, following a fall steeper than the 1982 recession experience.

Hawaii Banking & Finance

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Commercial Bank Deposits ($ bil., 12-month ending July)			
State Total Deposits	157.9	.....	1.7
Debits to demand deposits	279.0	.....	21.5
Oahu Total Deposits	131.9	.....	2.3
Debits to demand deposits	261.2	.....	23.8
Maui Total Deposits	10.1	.....	−4.8
Debits to demand deposits	7.3	.....	−9.7
Hawaii Total Deposits	10.7	.....	0.3
Debits to demand deposits	7.2	.....	0.3
Kauai Total Deposits	5.2	.....	3.4
Debits to demand deposits	3.4	.....	−0.5
Bank Loans Outstanding ($ mil., 1Q: 92)			
State	10,178.1	0.6	8.7
Real Estate	5,243.1	1.4	11.4
Consumer	1,136.6	−4.0	−9.5
Commercial & Industrial	3,001.9	−1.7	7.3
Other	673.3	1.7	25.3
Conventional Home Mortgage Rate			
Honolulu (%, 2Q: 1992)	7.53	−0.93**	−1.65**
State Tax Collections ($ mil., yr. to July)	1,656.6	.....	1.0

***Incremental change*

Hawaii Employment & Jobs

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Civilian Employment (thous., July)			
State Labor Force	573.4p	0.1	2.0
Employment	545.9p	0.3	−0.1
Unemployment rate (%)	4.8p	−0.2**	2.0**
Oahu Labor Force	407.8p	−0.2	1.2
Employment	392.9p	0.1	−0.2
Unemployment rate (%)	3.6p	−0.3**	1.3**
Maui Labor Force	65.2p	1.1	6.5
Employment	61.0p	1.1	3.3
Unemployment rate (%)	6.4p	0.0**	3.0**
Hawaii Labor Force	69.6p	1.0	4.1
Employment	63.3p	1.0	−1.1
Unemployment rate (%)	9.1p	0.0**	4.7**
Kauai Labor Force	30.9p	0.5	−0.3
Employment	28.7p	1.2	−3.5
Unemployment rate (%)	7.0p	−0.7**	3.1**
Job Count by Industry (thous., July)			
Total Jobs—State	592.4p	−0.5	−0.1
Oahu	444.2p	−0.8	−0.1
Maui County	59.1p	0.5	2.2
Hawaii	60.2p	0.1	−1.4
Kauai	28.9p	0.3	−1.7
Sugar (mill & field)	5.3p	1.0	−2.8
Pineapple (cannery & field)	3.3p	10.2	−12.2
Diversified Agriculture	10.1p	−2.4	3.1
Diversified Manufacturing	16.7p	−0.3	0.0
Durable goods	4.5p	0.0	1.1
Non-durable goods	12.2p	−0.4	2.1
Apparel & textiles	1.9p	0.0	−5.1
Contract Construction	31.9p	0.3	−7.0
Transportation	32.7p	−0.5	−1.1
Communication	7.3p	−0.7	−2.0
Utilities	3.3p	0.0	3.2
Retail Trade	113.6p	0.4	−0.9
Wholesale Trade	22.3p	0.0	−2.2
Finance, Insurance, & Real Estate	38.0p	0.0	0.8
Hotel Services—State	40.4p	−0.7	0.4
Oahu	20.1p	−0.5	2.0
Maui County	10.3p	−1.9	11.4
Hawaii	5.8p	0.9	−13.4
Kauai	4.4p	0.0	−7.4
Other Services	119.7p	0.4	1.0
Federal Government	33.6p	−0.6	−2.9
Civilian Agencies	14.9p	0.0	−2.3
Defense Department	18.8p	−1.1	−3.4
State Government	56.7p	−11.6	4.7
County Government	16.3p	9.0	1.9
Non-Agriculture Self-Employed	41.5p	6.0	1.8

*p=preliminary **Incremental change*

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Hawaii Business Activity

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
State Gross Business Receipts			
($ mil., year to June)	21,795.7	.....	2.8
Diversified Manufacturing	357.2	.....	7.4
Diversified Agriculture	186.2	.....	14.9
Retailing	7,109.5	.....	2.8
Wholesaling	5,385.7	.....	0.7
Services	5,323.4	.....	4.0
Construction	2,048.2	.....	-6.9
Other	1,385.4	.....	23.2
Retail Car Sales—State			
(Number, year to July)	19,651	.....	-14.8
Oahu	15,042	.....	-14.9
Maui	1,956	.....	-7.7
Hawaii	1,766	.....	-26.1
Kauai	887	.....	-1.1
Honolulu CPI (1982-84 = 100, 1st half 1992)			
Urban Wage Earners & Clerical Workers	154.6	6.0*	4.7
All Urban Consumers	153.9	6.4*	4.8
Tourism (Number, July)			
Overnight or Longer Visitors	599,280p	5.5	-12.6
year to date	3,810,720p	.....	-2.8
Westbound Visitor Counter	353,710p	6.7	-20.4
year to date	2,331,680p	.....	-13.2
Oahu	229,530p	6.2	-18.7
year to date	1,475,400p	.....	-14.1
Maui County	164,050p	9.3	-9.2
year to date	1,083,080p	.....	-4.2
Hawaii	77,140p	7.4	-23.2
year to date	543,310p	.....	-10.4
Kauai	88,390p	5.3	-11.0
year to date	574,180p	.....	-10.4
Average Daily Census	121,970p	1.4	-12.9
Average Length of Stay (days)	10.7p	-1.8	9.2
Eastbound Visitor Count	245,570p	3.9	1.8
year to date	1,479,040p	.....	19.7
Oahu	233,070p	2.5	4.3
year to date	1,427,750p	.....	23.3
Maui County	48,100p	1.3	12.9
year to date	273,200p	.....	23.8
Hawaii	22,420p	1.3	-4.8
year to date	124,070p	.....	9.6
Kauai	22,450p	18.4	-5.8
year to date	123,640p	.....	20.4
Average Daily Census	50,860p	12.1	11.4
Average Length of Stay (days)	6.4p	10.3	8.5
Hotel Occupancy Rate—State			
(%, July)	70.8	0.1**	-8.0**
year to date	70.7	.....	0.3**
Oahu	79.1	-4.0**	-7.0**
year to date	80.6	.....	4.0**
Maui Island	61.7	4.2**	-9.2**
year to date	60.1	.....	-4.2**
Hawaii	51.7	5.2**	-14.1**
year to date	53.7	.....	-5.0**
Kauai	61.7	5.5**	-5.4**
year to date	55.7	.....	-4.2**

*p=preliminary *Annual rate **Incremental change*

Hawaii Business Activity *(Cont.)*

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Defense Appropriations			
Total Funds ($ mil., 2Q: 1992)	287.7[1]	.....	-43.2
Military payroll	130.3[1]	.....	-47.4
Civilian payroll	103.0[1]	.....	-32.1
Local purchases	54.4[1]	.....	-49.1
Agriculture (year to June)			
Sugar Production (tons)	306,973	.....	-2.7
Price per ton	425.20	.....	-0.9
Pineapple Production (thous. lbs.)	124,073	.....	2.9
Honolulu Construction Cost Indexes (July)			
Single Family (1992 = 100)	103.8	.....	7.2
High Rise (1992 = 100)	99.8	.....	1.5
Private Permits ($ thous., yr. to June)			
State Residential	619,982[2]	.....	-34.8
Nonresidential	489,363[2]	.....	-6.1
Oahu Residential	421,657	.....	-34.8
Nonresidential	266,478	.....	-35.9
Maui County Residential	78,344	.....	0.9
Nonresidential	39,539	.....	-2.6
Hawaii Residential	105,161	.....	-48.9
Nonresidential	170,703	.....	302.4
Kauai Residential	14,820[2]	.....	-30.0
Nonresidential	12,643[2]	.....	-42.8
Public Contracts Awarded			
State ($ thous., year to July)	800,697	.....	106.4
Oahu	674,849	.....	123.1
Maui County	33,750	.....	-10.8
Hawaii	42,451	.....	88.8
Kauai	49,648	.....	37.5
By Level of Government			
Federal	75,012	.....	31.0
State	507,859	.....	107.6
County	217,827	.....	190.3
Real Estate Resales (July)			
State: Single Family (number)	307	-5.2	11.2
Average price	361,384	5.0	1.2
Condominium (number)	391	-5.3	-6.2
Average price	220,495	-1.9	-7.8
Oahu: Single Family (number)	165	-11.8	4.4
Average price	448,757	12.6	4.9
Condominium (number)	297	-5.1	-7.5
Average price	215,266	-2.0	-16.7
Maui County: Single Family (number)	37	2.8	-5.1
Average price	342,256	16.5	-2.3
Condominium (number)	49	-16.9	-16.9
Average price	307,071	19.9	69.8
Hawaii: Single Family (number)	87	14.5	38.1
Average price	214,189	-16.0	22.6
Condominium (number)	30	-3.2	20.0
Average price	153,240	-32.3	19.5
Kauai: Single Family (number)	18	-28.0	12.5
Average price	311,228	10.7	-21.1
Condominium (number)	15	50.0	25.0
Average price	175,733	-9.8	-27.8

**Annual Rate [1]Does not include Air Force*
[2]Includes only year to March figures for Kauai

Unemployment Insurance Benefits Growth

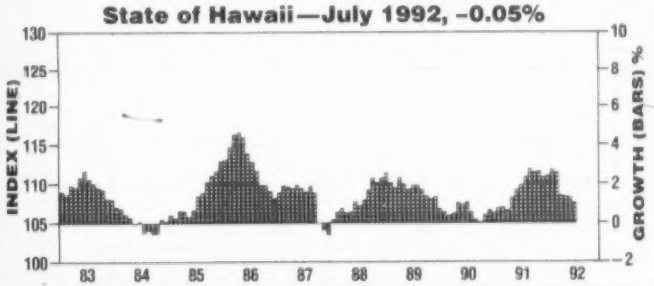
Recent growth in unemployment insurance benefits means that Hawaii employers may face higher unemployment insurance contribution rates in the coming year.

Hawaii Public Assistance

Series/Unit/Period	Level	Percent Change preceding period	Percent Change year ago
Unemployment Insurance (July)			
Insured Unemployment (wkly. avg.)	13,731	-4.9	51.8
Intrastate Initial Claims	6,588	-4.0	29.7
Interstate Initial Claims	438	0.7	5.0
Benefits ($ thous., year to date)	84,879	.....	81.1
Income Maintenance (July)			
Recipients (no. persons)	62,691	1.7	11.4
Payments ($ thous., year to date)	93,645	.....	15.1
Medical Assistance (July)			
Recipients (no. patients)	63,798	22.9	5.7
Payments ($ thous., year to date)	183,664	.....	21.3
Food Stamps (June)			
Recipients (no. persons)	93,717	0.5	11.0
Payments ($ thous., year to date)	58,566	.....	16.5
Services (1Q: 1992)			
Recipients (no. cases)	5,898	-6.4	-8.9
Payments ($ thous., year to date)	5,582	.....	35.0

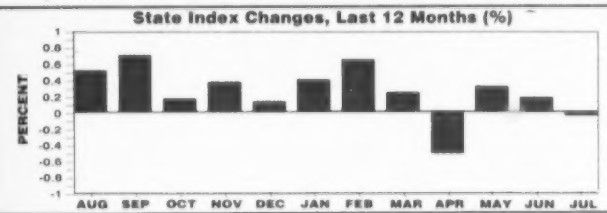
First Hawaiian Bank Index of Leading Economic Indicators

State of Hawaii—July 1992, -0.05%



The July leading index decreased by 0.1% to 127.0. This is the first monthy drop since April's 0.5% decrease. Of the ten components that make up the index, five registered gains. The monetary policy and trade-weighted exchange rate components registered about equal increases—on lower interest rates and a weaker dollar, respectively. The visitor count (seasonally adjusted), national leading index, and labor market components were mildly positive. At the county level, both the Oahu and Big Island indexes registered small declines, while Maui returned marginally to the positive column. Kauai was barely the strongest of the four counties this time.

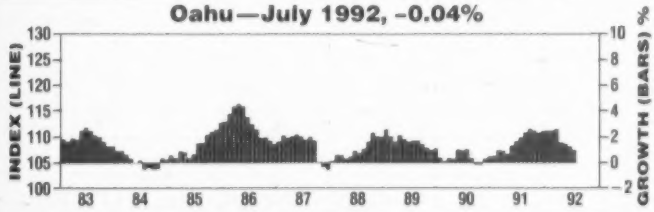
State Index Changes, Last 12 Months (%)



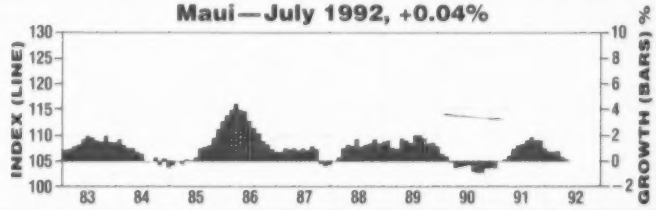
July State Index Components

Monetary Policy	+0.77%	Construction Contracts	-0.07%
Trade-Weighted Exchange Rate	+0.74%	Expected Purchasing Power	-0.22%
Visitor Count	+0.20%	Average Workweek Hour	-0.30%
National Leading Index	+0.10%	Credit Demand	-0.31%
Labor Market Conditions	+0.06%	Hawaii Stock Index	-0.60%

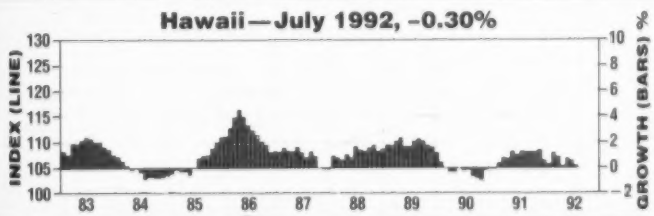
Oahu—July 1992, -0.04%



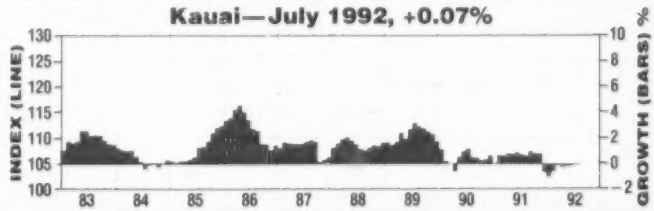
Maui—July 1992, +0.04%



Hawaii—July 1992, -0.30%



Kauai—July 1992, +0.07%



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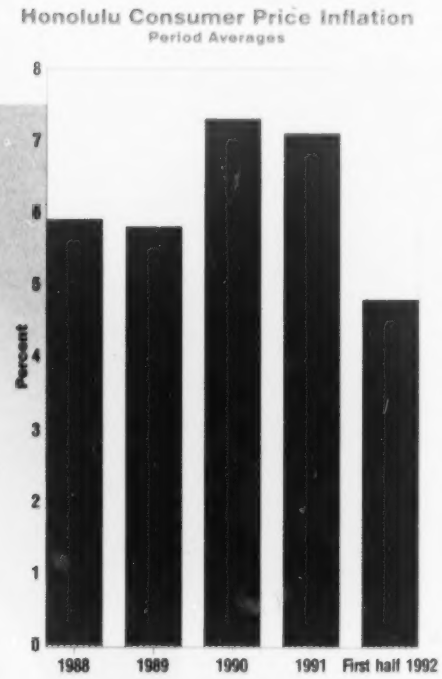
Current Business Trends: A Lower Inflation Rate for Honolulu?



The recently released Honolulu Consumer Price Index for the first half of 1992 provides a sigh of relief, on the surface. The inflation rate between the first half of 1991 and the first half of 1992 was 4.8%. We must go back to the first half of 1987 to find a lower year-over-year inflation rate for Honolulu; then inflation was at 4%.

On a closer inspection, however, inflation for the first half of 1992 actually was up. Annualizing the inflation rate for the six months ending December 1991 gives an inflation rate of little over 3%. Annualizing the inflation rate for the six months ending June 1992 suggests that inflation was running at a 6.4% pace. Our current economic slowdown had more impact last year than more recently.

Looking at the major categories, food and beverages inflation stood at 1.4%, apparel and upkeep at 1.6%, and entertainment at 2% between the first half of 1991 and the first half of 1992. The housing and transportation inflation rates were 5.9% and 6%, respectively. The medical care and "other goods and services" categories registered inflation of 7% and 8%, respectively.

Compared to the national inflation rate, Honolulu inflation is still almost 2-percentage points higher.

While inflation has become more muted compared to the 7%-plus inflation rate of the past two years, Honolulu does not have cause to celebrate. Compared to the national inflation rate, Honolulu inflation is still almost 2-percentage points higher overall. Local housing inflation, which has a large weight in the index, is almost twice that nationally. Overall, we still have a long way to go to be in line with the rest of the U.S.